EXHIBIT O

Commonwealth of Puerto Rico Fiscal Plan

October 14, 2016

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Executive Summary

Introduction

The Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") has experienced a persistent fiscal and economic crisis for the last decade, despite taking proactive steps to close its budgetary gaps and generate economic growth

- Puerto Rico's GDP has contracted for nine of the last ten years in real terms, driven by the expiration of incentives provided under Section 936 of the U.S. tax code and the U.S. financial crisis, and exacerbated by outmigration and extraordinary austerity measures taken by the Commonwealth
- The extraordinary austerity measures taken in the last decade include:
  - Reducing government consumption by 12% in real terms from 2006 through 2015[(1)]
  - Reducing public administration headcount by approximately 24%[(2)]
  - Reducing or deferring critical capital expenditures
  - Delaying tax refunds and vendor payments
  - Implementing significant new revenue measures, including recent sales and petroleum products tax increases generating approximately $1.4 billion annually
  - Depleting liquidity and undertaking extraordinary short-term borrowings from pension and insurance systems
  - Reforming pensions, converting defined benefit plans to defined contribution plans
- These austerity measures have not been enough to eliminate deficits, which led to significant deficit financing and a ballooning debt load during the period. Economic decline has also persisted, driving emigration to the U.S. mainland, as evidenced by Puerto Rico's population declining by 9% over the decade
- In 2015, based on the work of a team led by former IMF First Deputy Managing Director Anne Krueger, the Commonwealth determined that a broad debt restructuring was necessary
- The Commonwealth commenced an effort to consensually renegotiate its debts based on a detailed Fiscal and Economic Growth Plan ("FEGP") but such negotiations have, to date, not resulted in a definitive agreement with its creditors
- PROMESA was enacted in mid-2016 to provide Puerto Rico with the tools necessary to address its fiscal and economic crisis
- This Fiscal Plan is being presented pursuant to PROMESA and is the first step toward a permanent resolution of the Commonwealth's ongoing crisis
  - This Fiscal Plan identifies the resources available to support basic governmental services and promote growth; a specific debt restructuring proposal will be provided after receipt of input from the Oversight Board, as described further herein

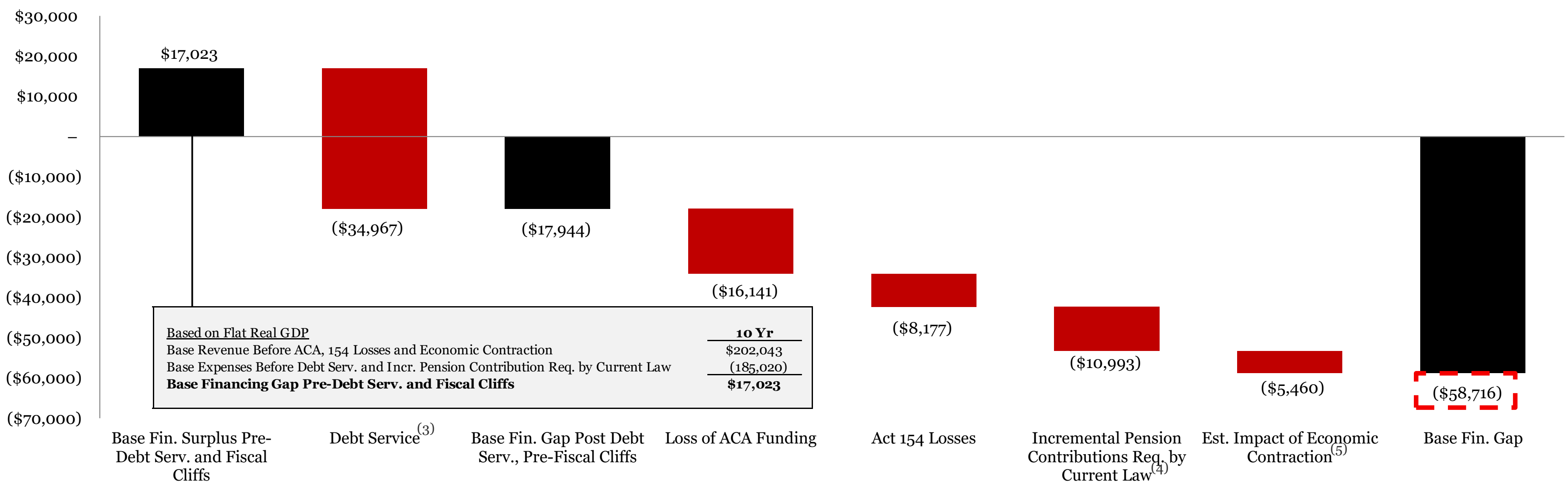
(1) U.S. Bureau of Labor Statistics, Seasonally Adjusted Government Employment. Represents state and local government employees.
(2) Puerto Rico Planning Board. GDB Statistical Appendix – Table 3: Gross National Product in Constant 1954 Dollars. Government Consumption Expenditures.

Under Current Laws and Policies, Puerto Rico Will Have a Significant Financing Gap

Puerto Rico projects a cumulative shortfall of revenues as compared to expenditures (a "financing gap") of approximately $59 billion over the next ten years (the "Base Financing Gap" or the "Base Projections")

- The Commonwealth's current revenues are not sufficient to support existing current operations and debt service, despite the Commonwealth's recent extraordinary efforts to close the financing gap. Three approaching fiscal cliffs, with an estimated ten year cumulative impact of $35.3 billion, will only further exacerbate the current crisis:
  1. The depletion of Affordable Care Act ("ACA") funds, which is estimated to occur in fiscal year ("FY") 2018
  2. The estimated loss of tax revenues from the conversion of Act 154 excise tax to a modified source income rule in FY 2018
  3. The depletion of liquid assets in the retirement systems, expected to occur on or before FY 2018, will require increased contributions to the pension systems to avoid an interruption of benefit payments
- In addition, based on current policies and macroeconomic trends, economic contraction is expected to continue at an average rate of approximately 1.7% per year, resulting in an increase to the financing gap of $5.5 billion over the next decade as compared to a case in which the economy experiences 0% real growth(1)
- The size of the financing gap detailed below assumes no measures are taken to fill the gap; if the Commonwealth were forced to only pursue austerity-type measures to address this shortfall, it is estimated real GDP contraction would intensify

Summary of Cumulative "Financing Gap" Under Current Laws and Policies from FY 2017 to FY 2026 ($ millions)(2)



(1) Inflation is illustratively held constant under both real growth assumptions at an average rate of 1.8% from 2018 to 2026.
(2) Base Projections shown correspond to the revenues and expenses only of those entities included in the Fiscal Plan presented herein. See the "Fiscal Plan Projections" for greater details on entities included in the Plan.
(3) Note that for illustrative purposes, debt service excludes loans from GDB and certain bonded indebtedness of Commonwealth entities held by GDB. Numbers also include past due amounts and are net of debt service reserves.
(4) Incremental contributions represent the Annual Additional Contributions ("AAC") required to be paid to the Teachers and Judicial Retirement Systems and the Additional Uniform Contribution ("AUC") required to be paid to the Employees Retirement System based on estimates provided by the Commonwealth's actuaries incorporating updated assumptions regarding items such as changes in the size of the active membership and future payroll assumptions consistent with the Fiscal Plan. The amount shown includes payments of certain past-due amounts from previous years, as such amounts are assumed to have been paid in work performed by the actuaries.
(5) Estimated impact of economic contraction corresponds to the estimated impact of real GDP growth going from 0% to an average of negative 1.7% from FY 2018 and FY 2026.

To Address the Base Financing Gap and Restore Economic Growth, the Commonwealth Must Adhere to the Following Seven Principles

After a decade of recession, Puerto Rico's economy must grow for the government to provide essential services to the 3.5 million Americans living in Puerto Rico, as well as to support a sustainable debt burden. Without economic growth, any level of debt service will be unsustainable and Puerto Rico will continue to face fiscal and economic crises

1

Minimize Impact of Austerity on Economic Growth

- The past decade's material austerity measures, ranging from layoffs to tax increases, have not abated the Commonwealth's fiscal and economic crisis. Further austerity will only exacerbate outmigration and accelerate the Commonwealth's economic decline
- The Commonwealth's Fiscal Plan ensures that critical fiscal discipline does not come at the expense of long-term economic growth

2

Improve Budgetary Controls and Financial Transparency

- Puerto Rico has experienced persistent deficits, routinely overestimating revenue and failing to control spending
- New rules and regulations must be implemented to enforce budgetary discipline, including improving recently instituted third-party revenue validation, budgeting in compliance with GAAP, mandating all spending to be approved through the annual budgetary process and improving regular budgetary reporting and tracking
- The Commonwealth's ability to properly monitor its fiscal position is hindered by obsolete financial, accounting and payroll systems. This, in turn, impedes informed decision-making and the ability to publish timely financial statements
- To correct this, Puerto Rico must invest in new IT infrastructure, reform financial reporting processes and centralize treasury functions
- Finally, Puerto Rico must improve its regular economic and statistical reporting to enhance long-term economic forecasting and tracking. Multi-year budgeting that reflects long-term economic forecasts should be required

To Address the Base Financing Gap and Restore Economic Growth, the Commonwealth Must Adhere to the Following Seven Principles (cont'd)

3

Rationalize Expenditures and Tax Policy to Promote Efficiency

- While further austerity is not the solution, the Commonwealth must stabilize its revenue base, improve its revenue collections, and rationalize expenditures. The selection and structure of any fiscal measures, and the timing of their implementation, must be designed to foster long-term growth and minimize negative economic effects
- The Fiscal Plan should focus on efficiency gains by prioritizing tax enforcement, consolidating agencies with overlapping functions and underutilized schools, further centralizing procurement to create economies of scale, reducing workforce through retirement and attrition, and eliminating automatic expenditure increases where there is no demonstrated need. Savings due to such efficiency gains should be reinvested to promote growth
- The Fiscal Plan should also reform tax policy, including to transition the taxation of multinationals away from the Act 154 excise tax in a manner that minimizes the impact on the Commonwealth's revenue base

4

Enact Structural Economic Measures and Invest in Growth

- Although Puerto Rico does not control U.S. federal policies that have a significant impact on its economy, the Fiscal Plan must implement structural reforms within Puerto Rico's control. Overhauls are needed to local policies to boost labor participation and productivity and create a business-friendly environment and attract private investment
- The Plan includes investment to maintain existing infrastructure and invest in strategic growth-promoting projects. Public-private partnerships must be leveraged to achieve efficiency gains
- The government must also catch-up on past-due payments to businesses and taxpayers, and build minimum liquidity reserves to ensure government stability, another necessary predicate to growth

5

Protect Vulnerable Stakeholders

- Shocks to Puerto Rico's most vulnerable constituencies, including the elderly, young, disabled and low-income residents, are likely to have a higher negative multiplier effect on the island's already weak economy
- Nearly half the island's population lives in poverty and relies on a public healthcare system overburdened by inequitable treatment under U.S. healthcare laws. Cuts to the system, even in the face of reductions in federal transfers, would leave Puerto Rico residents without access to healthcare and promote outmigration and further economic decline.
- The underperformance of local schools, together with crime rates that remain higher than the U.S. states, suggest investments in education and public safety must also be protected
- Public pension plans must be adequately funded. The plans must build on prior reforms and ensure the payment of an already meager average benefit that is only 53 percent of the average U.S. state
- The Fiscal Plan must also protect credit union depositors, who are generally low-income, as well as the cooperative banking system in general, subject to recapitalization plans and effective governance reforms

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To Address the Base Financing Gap and Restore Economic Growth, the Commonwealth Must Adhere to the Following Seven Principles (cont'd)

6

Create a Sustainable Debt Level That Allows for Growth

- Without a substantial debt restructuring resulting in a sustainable debt burden, Puerto Rico's growth potential will continue to be hindered by the fear of future defaults, lower public and private investment and further outmigration
- The sustainability of the debt burden must rely on objective criteria and realistic growth and fiscal assumptions. The Fiscal Plan must provide the island with sufficient breathing space to guarantee the provision of essential services, to implement smart, pro-growth fiscal and economic policies and to invest in its economy
- The restructuring plan must also offer a holistic solution for the Commonwealth's tax-supported debt burden, which is reliant on the single Commonwealth economy. Individual restructurings would be extremely challenging given the interrelatedness of holders, insurers and sources of credit support. Accordingly, the Fiscal Plan includes the tax-supported central government agencies and component units, including those identified by the Oversight Board for inclusion in the Fiscal Plan[1]
- Finally, the debt proposal must include restrictions on the issuance of new indebtedness, including limitations on the aggregate amount of tax supported debt, and must account for the impact on local holders

7

Partner with the Federal Government to Generate Growth

- Even after Puerto Rico implements the measures within its control, fiscal and economic recovery will be immeasurably more difficult if the U.S. government does not act affirmatively to address some of Puerto Rico's most conspicuous fiscal and economic inequities
- The Commonwealth suffers from inequitable healthcare treatment relative to the U.S. states. Its Medicaid reimbursement is capped
- Affordable Care Act funds that helped alleviate this inequity are expected to be depleted in FY 2018. Thereafter, only local funds will be available to cover shortfalls for Puerto Rico's struggling healthcare system. If not addressed by the U.S. government, this deficiency in funding would devastate the Commonwealth's fiscal accounts and social safety net
- The economic damage left by the repeal of Section 936 demonstrates the need for pro-growth federal policies that are tailored to increase private-sector employment and investment, such as funding a Puerto Rico Earned Income Tax Credit ("EITC") and permanent, cost-effective tax incentives for business investment

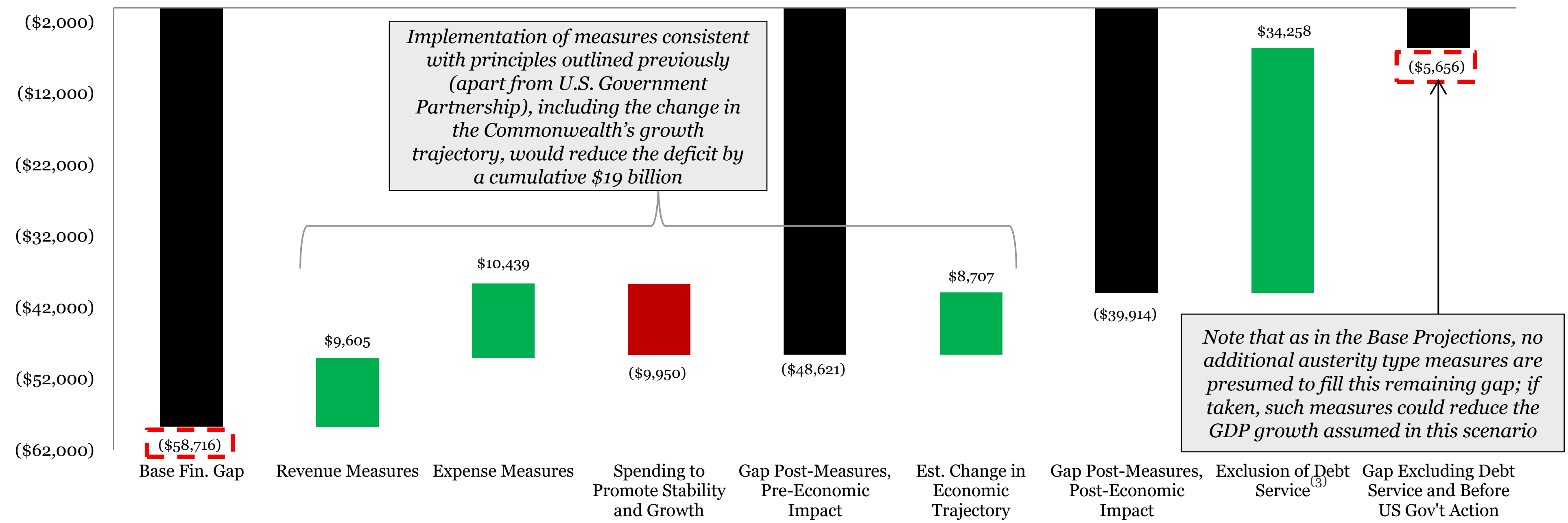
(1) See the list of entities specified by the Oversight Board for the first Fiscal Plan submission included in the document issued by the Board entitled "Covered Entities Under the PROMESA Act."

Implementing the Policies Within Puerto Rico's Control Would Reduce the Ten-Year Base Financing Gap by an Estimated $19 Billion

Even after implementation of revenue and expenditure measures that are within Puerto Rico's control and the attendant growth it could generate, the Commonwealth would still face a ten-year financing gap of nearly $5.7 billion

- The $19 billion reduction in the deficit *includes* the potential benefits of a change in the Commonwealth's real economic trajectory in the Base Projections from negative 1.7% to an average of 0.1%(1) growth, driven in part by new spending to promote stability and growth
  - This revised growth rate assumes elimination of all debt service such that the Commonwealth can spend up to the amount of its internally generated surplus in any year to promote growth (i.e., no external financing of any remaining primary deficits, after the removal of debt service, is assumed)
    - Given there is still a deficit after excluding all debt service, the economic impact of the measures may be muted
- The projections also assume no losses from Act 154 based on the assumption of a temporary extension of the excise tax via local legislation while the Commonwealth reforms its tax code(2)

Projections Including Measures ($ millions)



Note: See later in the presentation for the complete list of entities included in the Fiscal Plan; covered entities specifically identified by the Oversight Board are included. Additional details on how the projections were prepared are provided later in the presentation.

(1) Represents average real growth over the period FY 2018 to FY 2026.

(2) The projection assumes that Act 154 excise tax credit is not ruled to be uncreditable under U.S. tax law.

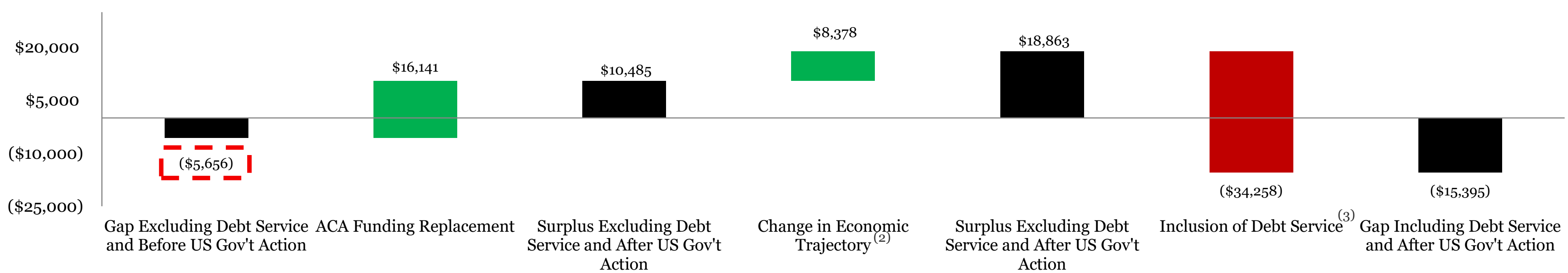
(3) Includes principal and interest payments that may have been missed in FY 2016 and FY 2017. Debt service shown net of existing reserves used to pay debt service. Note that for illustrative purposes, debt service excludes debt held by GDB and excludes revenues otherwise allocated to COFINA FY 2017 debt service.

The U.S. Government Must Become a Partner in Achieving Growth to Fully Eliminate the Commonwealth's Financing Gaps

Equitable treatment under U.S. healthcare laws, combined with certain changes to other U.S. policies, are critical to Puerto Rico's future

- U.S. citizens living in Puerto Rico do not receive the same level of healthcare funding as citizens living in the 50 states
  - Federal healthcare dollars, including Medicaid, are subject to a cap that does not apply to the states
- ACA funds temporarily and partially offset this inequitable treatment, but such funds are expected to be exhausted in FY 2018 and the already struggling healthcare system cannot afford to be deprived of additional funding
  - Puerto Rico's hospitals are already struggling to retain doctors and pay their vendors
- Equitable treatment under the U.S. healthcare laws that, at the very least, restores funding at least equal to the level provided by ACA is essential for Puerto Rico to provide basic healthcare services to U.S. citizens living on the island and to help eliminate the Commonwealth's financing gaps prior to debt service
- If Federal healthcare funding is kept at least at the level under current policies, (so the Commonwealth is not forced to dedicate other revenues to replace the loss of ACA funding), those Commonwealth revenues can be dedicated to additional investments that will drive a higher economic growth rate (the change in economic trajectory shown below represents an increase from 0.1% to an average of 1.4% over the period FY 2018 to FY 2026)[1]
  - Additional actions from the U.S. government to increase private sector employment and investment, such as funding an Earned Income Tax Credit, the Child Tax Credit, Supplemental Social Security Income, and permanent, cost-effective tax incentives for business investment, could spark further growth than that estimated below
- Note that *no allocation* to creditors of the potential surplus before debt service shown below has been included in this Plan submission and the Commonwealth believes that creditors should share in both the benefits and risks of economic growth projections such as those included below

Estimated 10-Year Financing Gap Reductions From Certain U.S. Government Actions ($ millions)



Note: See later in the presentation for the fulsome list of entities included in the Fiscal Plan; covered entities specifically identified by the Oversight Board are included. Additional details on how the projections were prepared are provided later in the presentation.
(1) The change in economic trajectory also represents an increase in inflation from 2.0% to an average of 2.50% over the period FY 2018 to FY 2026.
(2) Represents average real GDP growth of 1.4% and average inflation of 2.5% over the period FY 2018 through FY 2026.
(3) Includes principal and interest payments that may have been missed in FY 2016 and FY 2017. Debt service shown net of existing reserves used to pay debt service. Note that for illustrative purposes, debt service excludes debt held by GDB and excludes revenues otherwise allocated to COFINA FY 2017 debt service.

Fiscal Plan Compliance with PROMESA

Given PROMESA envisions an iterative process with the Oversight Board, full compliance with the 14 requirements of PROMESA is dependent upon feedback and recommendations from the Oversight Board. The Fiscal Plan contained herein, however, is a comprehensive proposal that provides a basis for full compliance and certification in the near-term, depending on the nature and timing of the Oversight Board's feedback

Fiscal Plan Requirements[1]	Comments
1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws, or (ii) specific bills that require enactment in order to reasonably achieve the projections of the Fiscal Plan	▪ The Fiscal Plan submitted herein was prepared on a basis generally consistent with modified accrual approach, with the exception of certain elements.[2] All revenues and expenses are based on current Puerto Rico and federal law, unless otherwise provided for in proposed measures, the specific statutory changes for which can be developed in conjunction with the Oversight Board
2. Ensure the funding of essential public services	▪ The Plan is specifically designed to provide for essential services such as healthcare funding, public safety and education and to protect Puerto Rico's most vulnerable residents and provide for sustainable economic growth. Catch up in payables to suppliers of essential services ensures stability of such services
3. Provide adequate funding for public pension systems	▪ Building upon previous pension reforms, the Fiscal Plan provides for funding of retirement benefits through payments of the actuarially-determined AACs and AUCs for the entities included in the Fiscal Plan, and additional reforms
4. Provide for the elimination of structural deficits	▪ The Fiscal Plan provides for the elimination of structural deficits *assuming* certain specified actions are taken by Puerto Rico and the U.S. government

(1) See Title II, Section 201(b) of PROMESA.
(2) Certain items, such as the payment of past-due payable amounts, are purposefully projected on a cash basis as they were expenses incurred in prior periods and therefore would not be captured by modified accrual.

Fiscal Plan Compliance with PROMESA (cont'd)

Fiscal Plan Requirements[1]	Comments
5. For fiscal years covered by a Fiscal Plan in which a stay under titles III or IV is not effective, provide for a debt burden that is sustainable	▪ The Fiscal Plan provides principles to achieve a sustainable debt burden. A specific debt restructuring proposal will be provided following receipt of the Board's recommendations and clarity regarding assumptions for U.S. government actions and appropriate economic growth rates. The final debt service level cannot exceed the projected surplus before debt service in the final Fiscal Plan and will be targeted not to exceed 15% of projected revenues
6. Improve fiscal governance, accountability and internal controls	▪ The Fiscal Plan includes specific measures to improve governance, accountability and internal controls
7. Enable the achievement of fiscal targets	▪ The Fiscal Plan is based on fiscal and growth targets developed in conjunction with outside advisors and mandates updates to reporting requirements to allow tracking of progress toward meeting fiscal targets. The growth targets are contingent upon the adoption and implementation of recommended Puerto Rico and federal government measures
8. Create independent forecasts of revenues for the period covered by the Fiscal Plan	▪ Revenue forecasts were developed in conjunction with outside advisors. The Commonwealth looks forward to validating its projections with the Board and its staff
9. Include a debt sustainability analysis ("DSA")	▪ The Fiscal Plan shows that existing debt service is clearly not sustainable. A formal DSA of restructured debt service will be developed in conjunction with specific restructuring proposals

(1) See Title II, Section 201(b) of PROMESA.

Fiscal Plan Compliance with PROMESA (cont'd)

Fiscal Plan Requirements[1]	Comments
10. Provide for capital expenditures and investment necessary to promote economic growth	▪ The Fiscal Plan includes specifically identified capital projects intended to rebuild aging infrastructure and promote economic growth. Investments in the repayment of past-due amounts to suppliers and taxpayers are also intended to generate growth
11. Adopt appropriate recommendations submitted by the Oversight Board (under Section 205(a) of PROMESA)	▪ The Fiscal Plan includes specific fiscal and structural measures which are of the type covered under Section 205(a) of PROMESA. The Governor welcomes for consideration any additional recommendations by the Board
12. Include such additional information as the Oversight Board deems necessary	▪ The Fiscal Plan includes a significant number of specific fiscal and structural measures. The Governor welcomes for consideration any additional recommendations of the Board
13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territorial instrumentality of a covered territory, unless permitted by the constitution of the territory, an approved plan of adjustment under title III, or a Qualifying Modification approved under title VI	▪ The Fiscal Plan suggests a holistic solution to the Commonwealth's fiscal and economic challenges is necessary and suggests the total amount of resources available to pay any debt service. The Fiscal Plan does not provide a specific debt restructuring proposal or prescribe any treatment for any specific credit. And such proposal may require an adjustment plan for Qualifying Modification under title VI or numerous credits under title III. The debt restructuring proposal that will be submitted will comply with Sections 201(m) and 201(n) of PROMESA
14. Respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the date of enactment of PROMESA	▪ The Fiscal Plan does not provide a specific debt restructuring proposal. The Fiscal Plan suggests a holistic solution to the Commonwealth's debt burden, which may require an adjustment plan for numerous credits under title III and/or a Qualifying Modification under title VI. As noted above, the debt restructuring proposal that will be submitted will comply with Sections 201(m) and 201(n) of PROMESA

(1) See Title II, Section 201(b) of PROMESA.

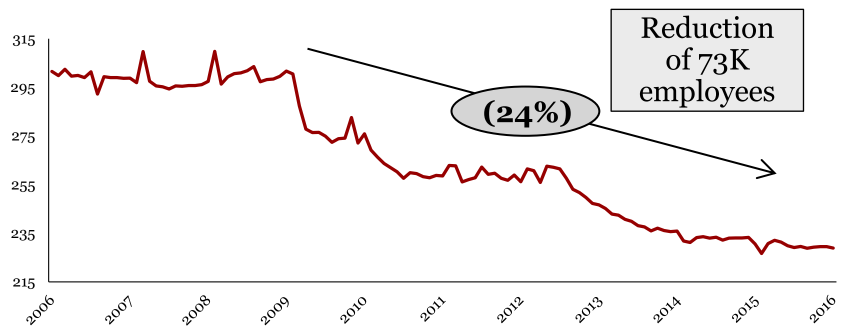
Core Principles of the Fiscal Plan

1. Minimize Impact of Austerity on Economic Growth

Since 2006, Puerto Rico's Government Has Taken Significant Austerity Measures, Including a Large Headcount Reduction

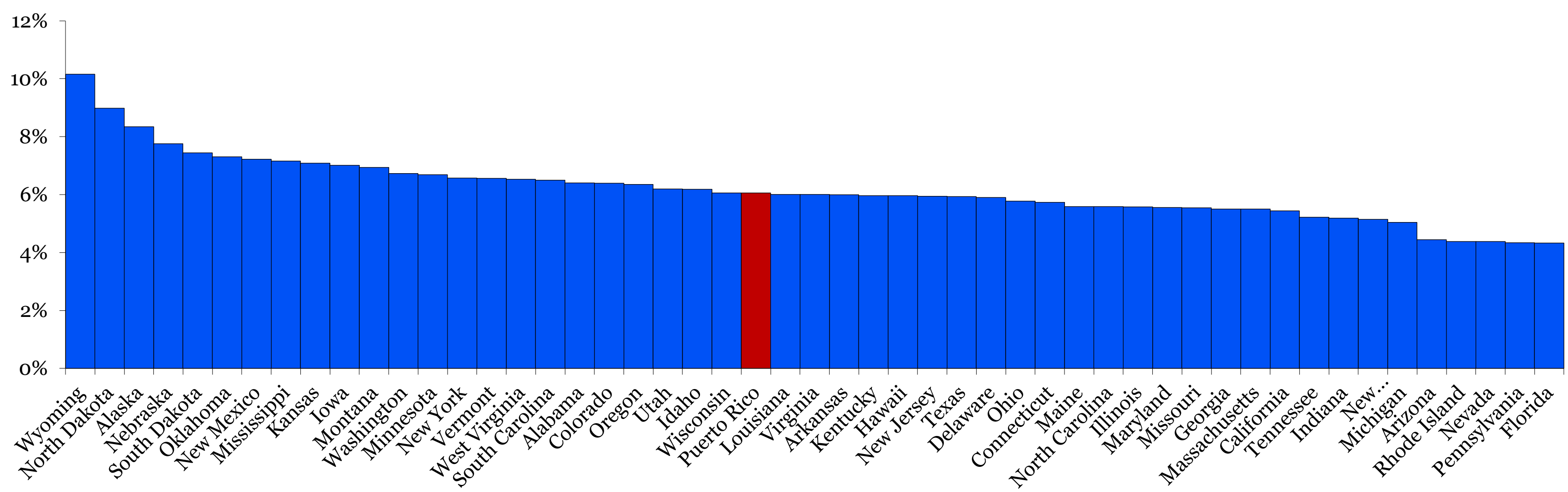
The Government has taken significant steps to control and reduce expenses, including a significant reduction in public sector employment that has brought such employment as a percentage of the total population in line with state averages.[1] In contrast to prior administrations, the current administration decided that headcount reduction should occur through attrition, not layoffs

Puerto Rico Public Sector Employees (thousands)[2]



The significant reduction in public sector employment has reduced its share of total population to approximately 6%, which compares favorably to mainland states, where the typical share is between 5% and 8%

Public Sector Employment as a % of Total Population[3][4]



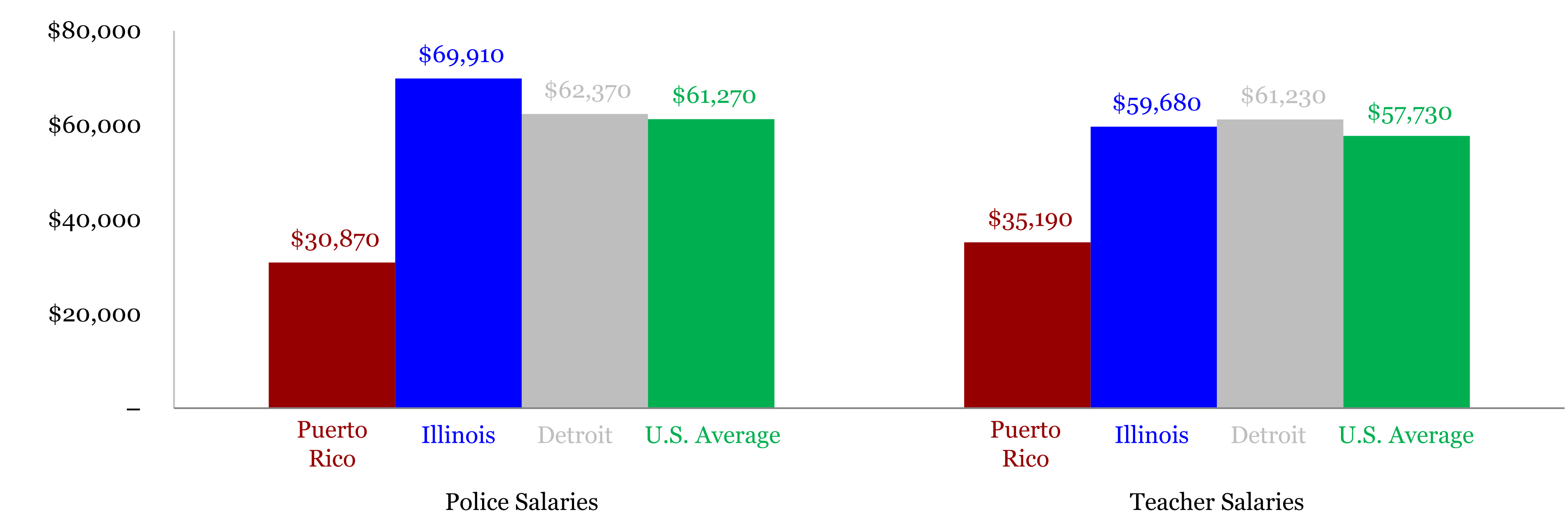
(1) Public sector employment includes both Commonwealth government and municipality employment headcounts.
(2) U.S. Bureau of Labor Statistics, Seasonally Adjusted Government Employment. Represents state and local government employees.
(3) U.S. Department of Labor. Employment as of July 2016 and population as of July 2015.
(4) U.S. Census Bureau.

The Commonwealth Has Also Implemented a General Freeze on Public Sector Salaries and Other Spending

The Commonwealth has taken steps to control expenditures such as freezing employee salaries and cutting non-salary compensation, in recognition that salaries are already well below equivalent salaries in the states

- The Commonwealth's Special Fiscal and Operational Sustainability Act (Act No. 66-2014) addresses Commonwealth spending by implementing various measures such as freezing increases in payroll costs and/or collective bargaining agreements, cutting non-salary compensation, freezing formula appropriations and reducing rates for school transportation costs and professional and purchased services[2]

Police and Teacher Salaries in Puerto Rico and Other Financially Stressed Jurisdictions[1]



(1) U.S. Bureau of Labor Statistics, Occupational Employment Statistics and National Education Association. Teachers salaries shown herein represent salaries for Elementary School Teachers, except Special Education, which has the highest number of teachers.

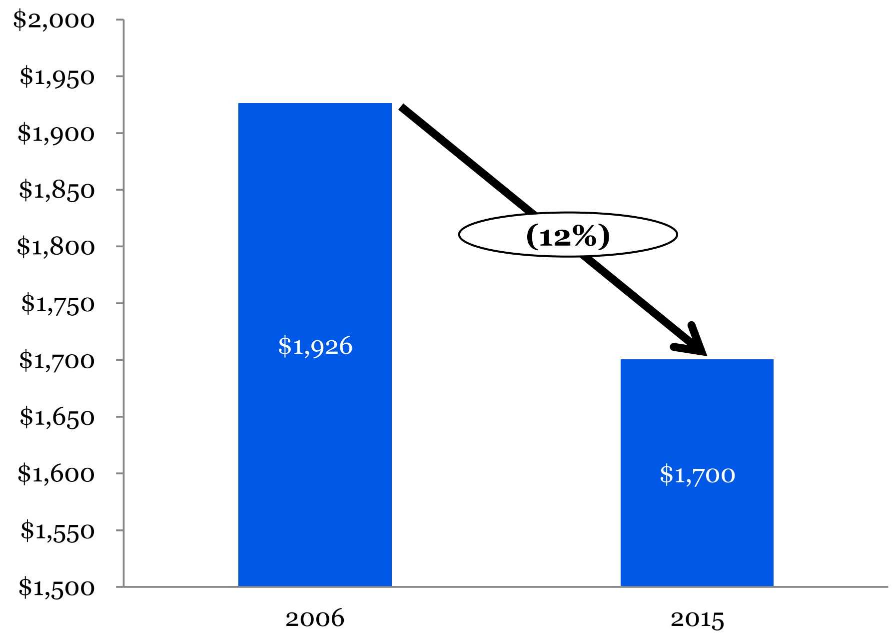
(2) Act No. 66-2014, June 17, 2014, GDB. http://www.gdb-pur.com/investors_resources/documents/A-066-2014.pdf.

As a Result of Austerity Measures, Government Consumption Expenditures Have Declined Below 2006 Levels

Per the Puerto Rico Planning Board, government consumption expenditures were 12% lower in FY 2015 than in FY 2006 *on a real* basis

Real Government Consumption Expenditures in FY 2006 and FY 2015[1]

($ millions, fixed at 1954 dollars)



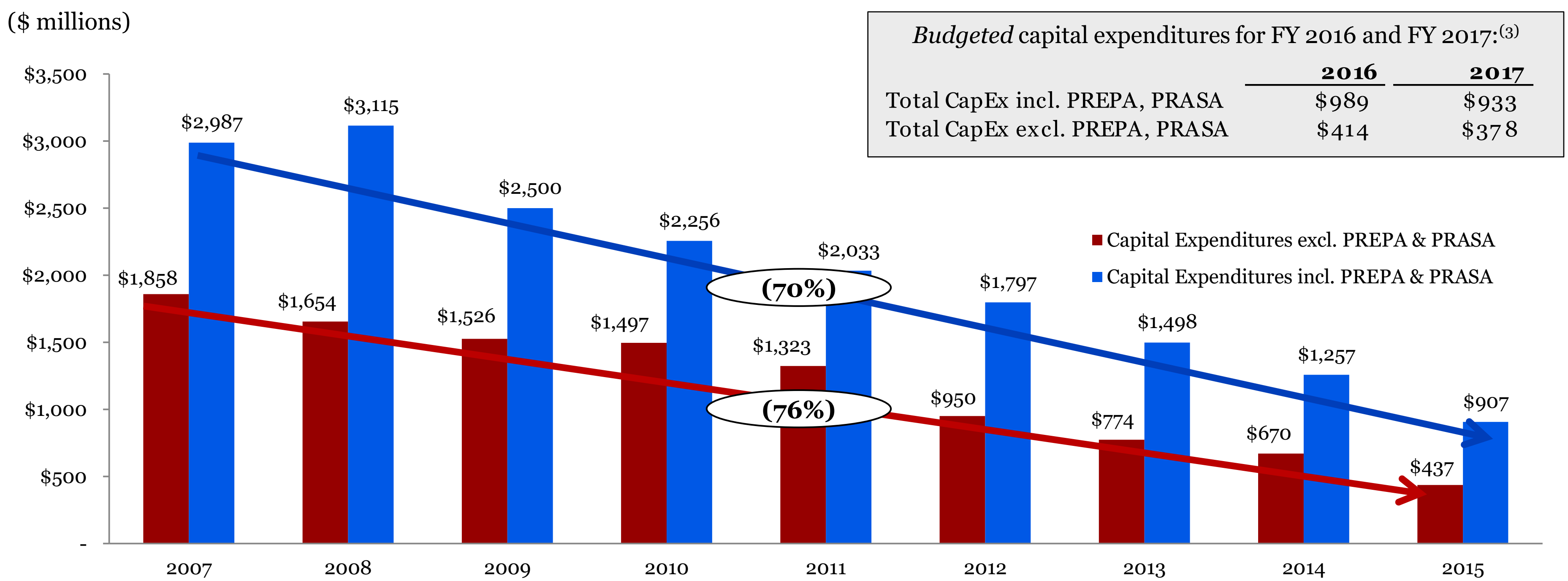
Note: All figures are presented on a Puerto Rico fiscal year basis (July to June).
(1) Puerto Rico Planning Board. GDB Statistical Appendix – Table 3: Gross National Product in Constant 1954 Dollars. Government Consumption Expenditures.

Critical Capital Investment Has Also Been Dramatically Reduced, Leaving the Commonwealth's Infrastructure in Disarray

Capital expenditures for Puerto Rico's major agencies and component units (including PREPA and PRASA) have fallen by approximately 70% from FY 2007 to FY 2015. When excluding the impact of PREPA and PRASA capital expenditures, total investment declined by approximately 76% over the period

- Note that the numbers shown below are *inclusive* of federal grants related to capital spending and are as reported by the Office of Management and Budget(1)

Actual Capital Expenditures of Major Commonwealth Agencies(2)



Budgeted capital expenditures for FY 2016 and FY 2017:(3)

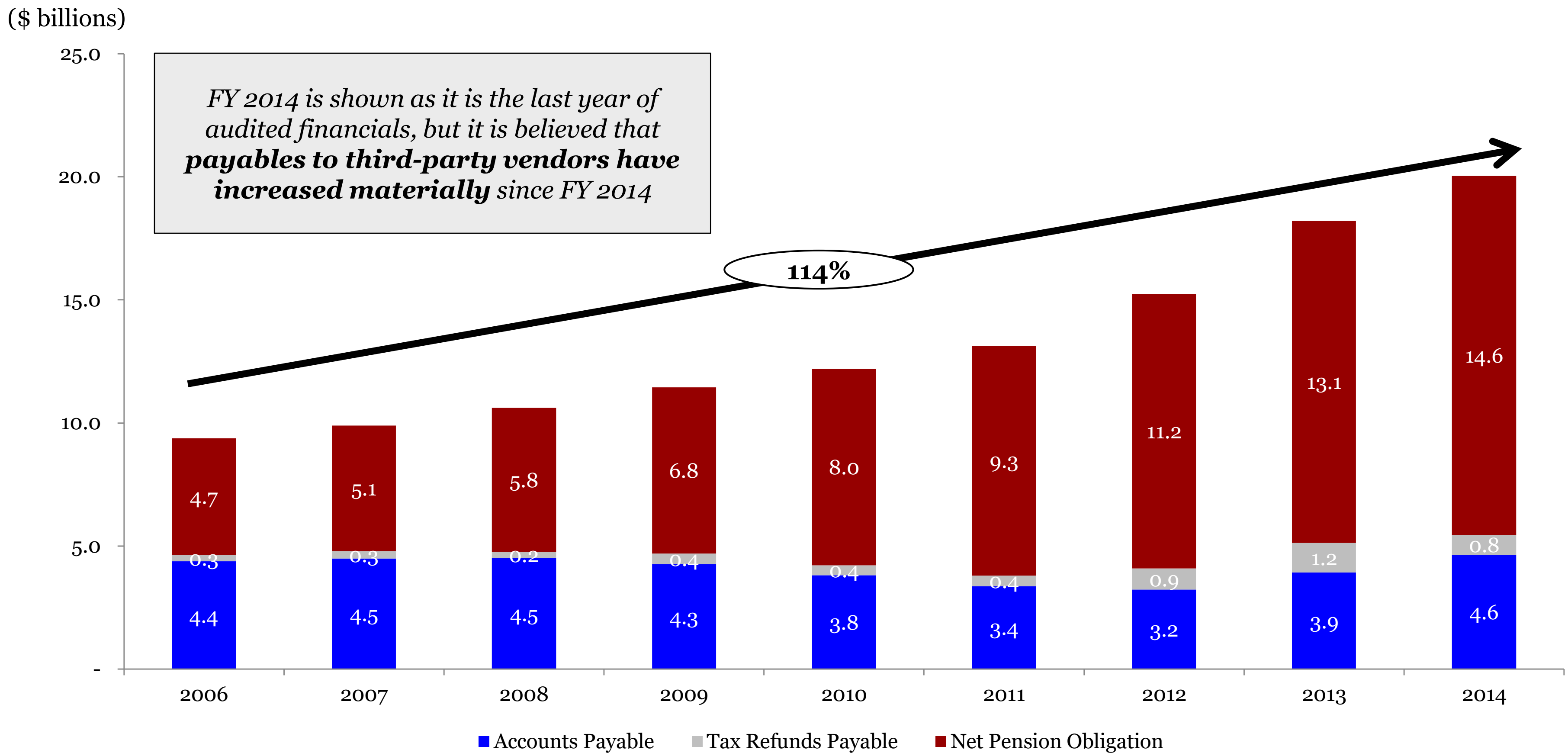
	2016	2017
Total CapEx incl. PREPA, PRASA	$989	$933
Total CapEx excl. PREPA, PRASA	$414	$378

(1) Note that the numbers shown will not correspond to the CAFR.
(2) Office of Management and Budget, *Presupuesto Consolidado de Mejoras Permanentes por Agencia*. Actual figures shown unless indicated otherwise.
(3) FY 2017 budgeted figures shown reflect the Office of Management and Budget's recommended budget for FY 2017.

The Government Has Also Been Forced to Delay Payments to Vendors and Taxpayers, as Well as Contributions to the Pension Systems

Since 2007, past-due obligations of the Primary Government and Component Units owed to third-party vendors, taxpayers, and the pension systems have all markedly increased

Primary Government and Component Unit Total Accounts Payable, Tax Refunds Payable, and Net Pension Obligation(1)



Note that the net pension obligation of the Primary Government is based upon an actuarial valuation and is distinct from the full unfunded liability of the retirement systems, instead representing the Primary Government's obligation as a sponsor to fund its pensions.

(1) Commonwealth Comprehensive Annual Financial Reports. Figures sourced from Statement of Net Position. Note that accounts payable figures include both primary government and component units but exclude fiduciary funds. Payables are not limited to past-due balances.

These Expense Reductions Have All Come Hand-in-Hand with Significant Revenue Increases, Which Have Reduced Disposable Income

Revenues from the Act 154 excise tax imposed in 2011 and the 2015 increase in the Sales and Use Tax ("SUT") to 11.5% now account for approximately 30% of General Fund revenues

FY 2017[1] General Fund Revenues

($ millions)

General Fund Revenue (Pre-Measures)	FY 2017 Budget	% of Total
Individual Income Taxes	$1,966	21.6%
Corporate Income Taxes	1,525	16.8%
Non-Resident Withholding	763	8.4%
Sales and Use Tax	1,608	17.7%
Act 154 Excise Tax	1,924	21.1%
Alcoholic Beverages Excise Tax	272	3.0%
Tobacco Products Excise Tax	117	1.3%
Motor Vehicles Excise Tax	293	3.2%
Rum "Cover Over" Revenues	206	2.3%
Other General Fund Revenues	426	4.7%
Total General Fund Revenues	**$9,100**	**100.0%**

*SUT increase from **7% to 11.5%**, the highest in the U.S.[2], resulted in approximately $1 billion of incremental GF revenues in FY 2016 and represents approximately 11% of projected FY 2017 GF Revenues*

*Act 154 excise tax revenues represent **21%** of total projected FY 2017 GF Revenues*

Note that Fiscal Plan projections have subsequently been reduced to $9,045 million due to lower lottery revenues

There have also been significant increases in taxes and charges outside of the General Fund. For example, the recent increases in the excise tax on petroleum products from $3.00 to $15.50 generates approximately $360 million of incremental revenues and the 2013 60% increase in water rates by PRASA generates approximately $330 million of incremental revenues

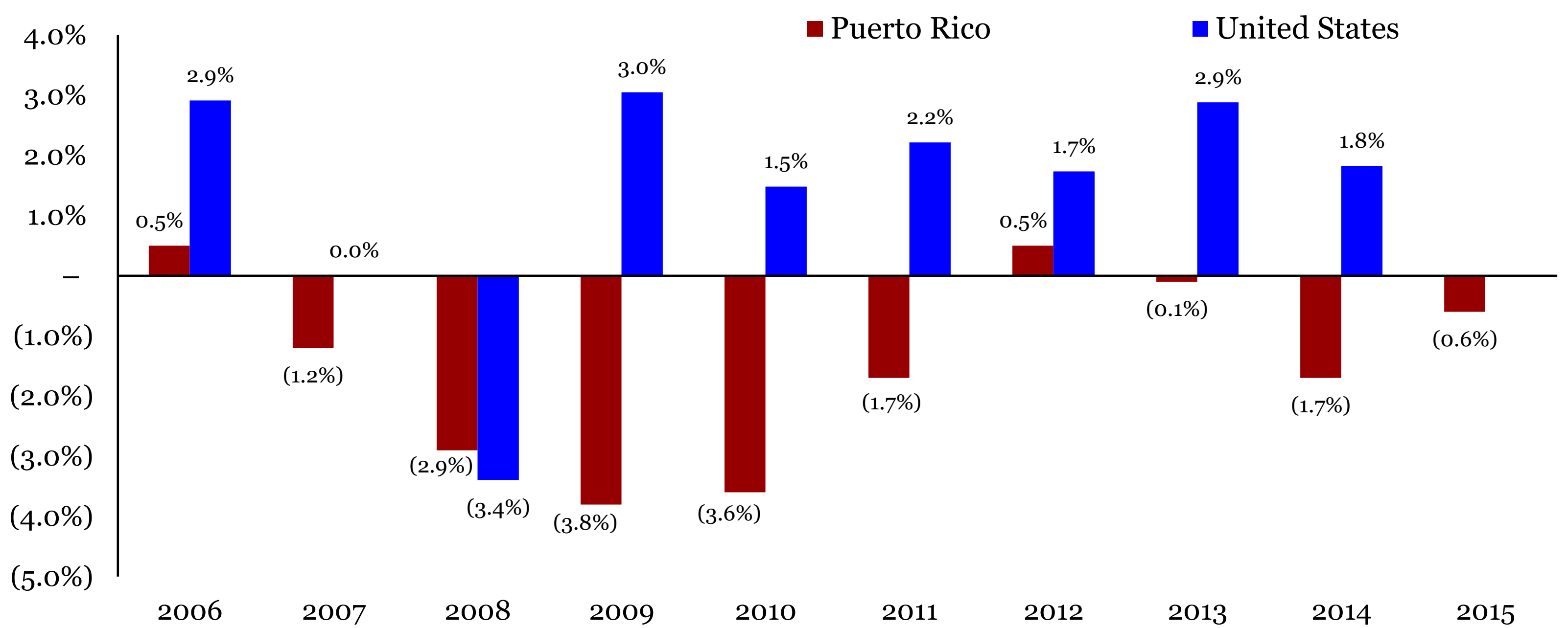
(1) Note that the Puerto Rico fiscal year runs from July to June.
(2) "Puerto Rico, At 11.5%, Has America's Highest Sales Tax." August 17, 2015, Forbes.

All of These Austerity Measures Have Not Reversed and May Have in Fact Contributed to a Decade of Economic Contraction

The combination of the 2006 elimination of Section 936 of the U.S. tax code, the onset of the U.S. financial crisis, and the aforementioned pro-cyclical austerity measures, have led to negative real GNP growth in every year but one since 2006

- The GNP declines would have been even worse had it not been for large stimulus spending, such as the approximately $7.1 billion of funds allocated to Puerto Rico under the 2009 American Recovery and Reinvestment Act (ARRA) and the creation of a $500 million "Local Stimulus Fund" funded from the Puerto Rico Sales Tax Financing Corporation ("COFINA") bond issuances in 2009 and 2010(1)
  - Furthermore, tax reform enacted in 2011 sought to jumpstart the economy by reducing individual and corporate taxes by approximately $706 million, some provisions of which were later modified to address resulting revenue shortfalls

Real GNP Growth Rates – Puerto Rico vs. United States(2)(3)



(1) 2011 Comprehensive Annual Financial Report p. 27.
(2) Puerto Rico Fiscal Authority Agency and Financial Advisory Authority. Economic Activity Index ("EAI") Reports for Puerto Rico GNP data and the U.S. Bureau of Economic Analysis for the United States GNP data. Both Puerto Rico and U.S. fiscal data reported on a Puerto Rico fiscal year basis (July to June).
(3) Puerto Rico values are based on real GNP calculated at 1954 prices; U.S. values are based on real GNP at 2009 prices.

The Economic Crisis Has Compromised the Government's Ability to Provide Essential Services

Past due payments to suppliers have called into question the government's ability to provide its residents with essential police, education and healthcare services

"The island reached a tentative deal…with Total Petroleum Puerto Rico Corp. after the company ***warned it would no longer supply state vehicles with gasoline*** *because of the government's $16 million debt"*

-Danny Hernández,
Spokesman for the General Services Administration(1)

"Carmen Warrel, spokesperson for the Special Education Steering Committee parent's association, highlighted that there are cases, such as the ***Instituto Modelo de Enseñanza, which is contracted by the Department of Education to serve students with autism, who have announced closure at the end of the month if not paid"***

-Univision(2)

"Administrators detailed both delayed funding from insurers and government sources, and how the ***hospital had to delay and prioritize payments to provide basic care for its patients****. '****We are hanging by a thread****,' said Dr. Juan Nazaro, executive director of the hospital"*

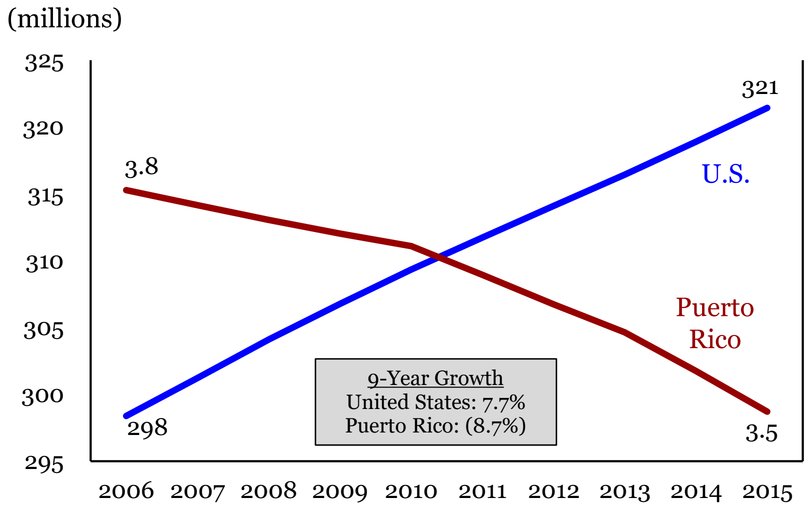
-The Atlantic(3)

(1) "Puerto Rico's Crisis Threatens to cut Gas, Power Supplies," January 11, 2016, Caribbean Business. http://caribbeanbusiness.com/puerto-ricos-crisis-threatens-to-cut-gas-power-supplies/.
(2) "Servicios de Educación Especial afectados por falta de liquidez en Puerto Rico," January 18, 2016, Univision Agencia EFE. http://www.univision.com/noticias/educacion-especial/servicios-de-educacion-especial-afectados-por-falta-de-liquidez-en-puerto-rico.
(3) "Will Puerto Rico's Debt Crisis Spark a Humanitarian Disaster," May 13, 2016, The Atlantic. http://www.theatlantic.com/politics/archive/2016/05/puerto-rico-treasury-visit/482562/.

The Economic Crisis Has Led to Material Outmigration from the Island, the Pace of Which Appears to Be Intensifying

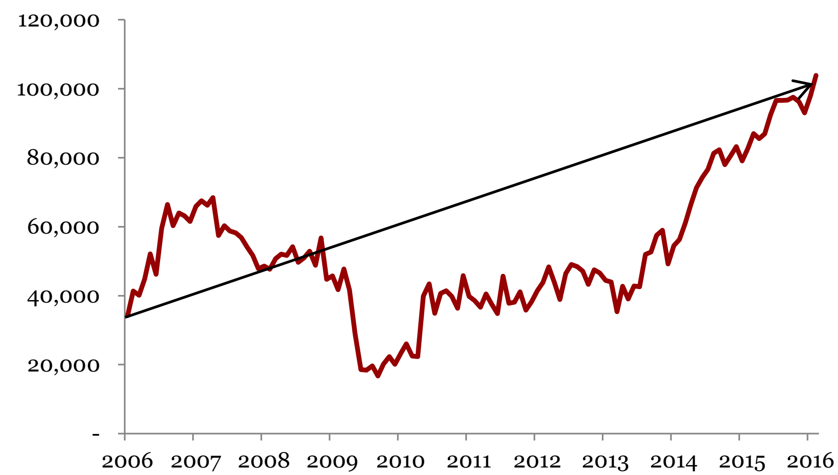
Puerto Rico's population declined by approximately 9% from 2006 to 2015 and the rate of outmigration appears to be increasing

Puerto Rico Population 2006 to 2015[(1)]



Puerto Rico lost approximately 331,000 people in the period from 2006 to 2015

Puerto Rico Net Outgoing Air Passenger Traffic (Total on a Rolling Last Twelve Month Basis)[(2)]



Based on outgoing passengers less incoming passengers, it appears the pace of those migrating from the island may be increasing

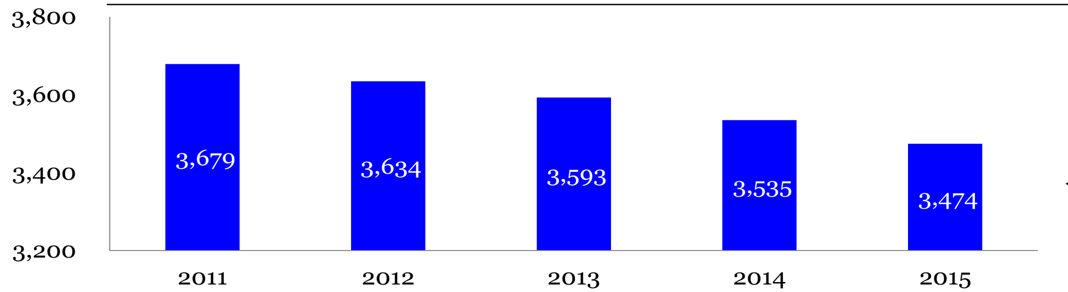
Outmigration has only exacerbated the Commonwealth's fiscal and economic challenges and has a material impact on the Commonwealth's long-term economic potential

(1) U.S. Census Bureau, Population Division. Yearly data shown as of July 1.
(2) Puerto Rico Institute of Statistics.

In Fact, Puerto Rico's Outmigration Leading Up to its Default Dwarfs that Experienced by Other Troubled Jurisdictions

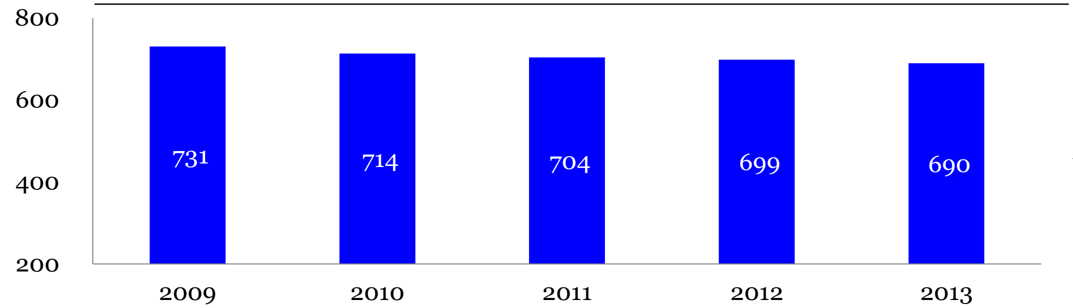
On a percentage basis, outmigration from the island has exceeded that experienced in Washington D.C. prior to the implementation of a control board and is comparable to that experienced in Detroit prior to its Chapter 9 filing; however, in absolute terms, Puerto Rico's total population loss is far greater than either Detroit or D.C.

Puerto Rico Population (thousands)[(1)]



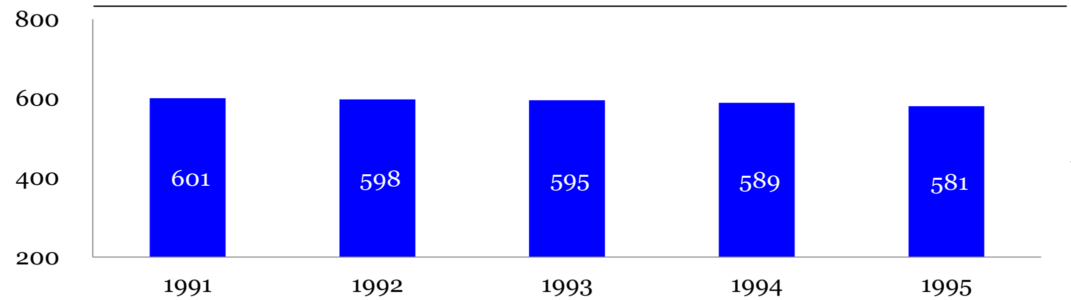
Puerto Rico's population declined by approximately **6%,** or **205K,** from 2011-2015

Detroit Population (thousands)[(2)]



Detroit's population declined by approximately **6%,** or **41K,** from 2009-2013

Washington, D.C. Population (thousands)[(3)]



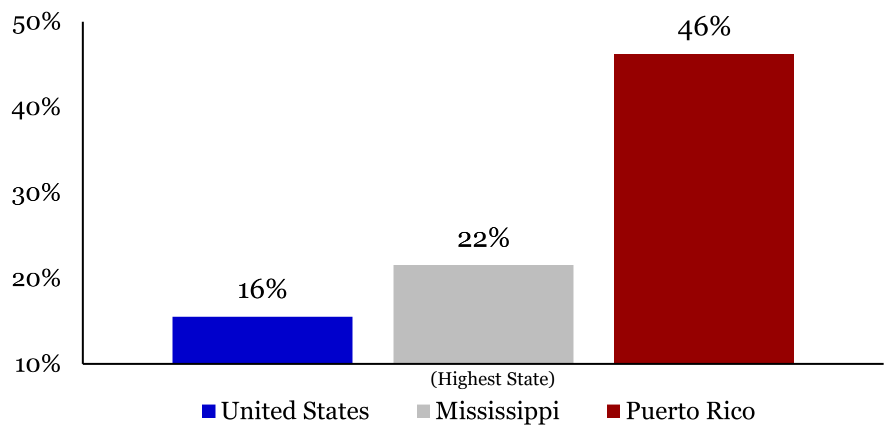
The District of Columbia's population declined by approximately **3%,** or **20K,** from 1991-1995. While over a longer time period (through 2000), D.C. had a larger economic and demographic shift, if current trends continue, Puerto Rico's shift may surpass that of D.C. not only on a nominal basis but also on a percentage basis[(4)]

(1) U.S. Census Bureau, Population Division, Annual Estimates of the Resident Population.
(2) Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2015. Source: U.S. Census Bureau, Population Division.
(3) Time Series of District of Columbia Intercensal Population Estimates by County: April 1, 1990 to April 1, 2000. Source: Population Division, U.S. Census Bureau.
(4) Compares D.C.'s population from 1980-2000, during such period there was a 10.4% decline. U.S. Census Bureau Intercensal Population Estimates of the Total Resident Population of States.

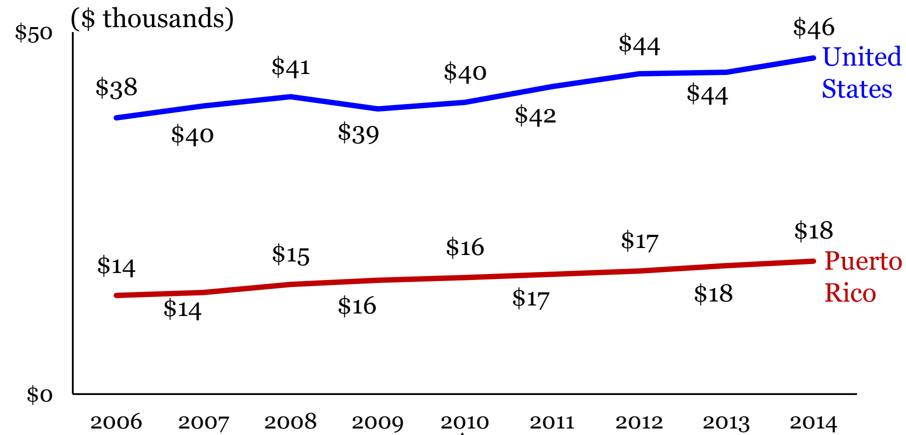
The Economic Crisis and Austerity Actions Taken to Date Have Negatively Impacted the Population, Nearly Half of Whom Live Below the Poverty Line

Puerto Rico's economic collapse has created deteriorating conditions for those living in poverty, while they continue to face a cost of living comparable to the U.S.

Population below the Poverty Level (2014)[1]



Per Capita Disposable Income[2]



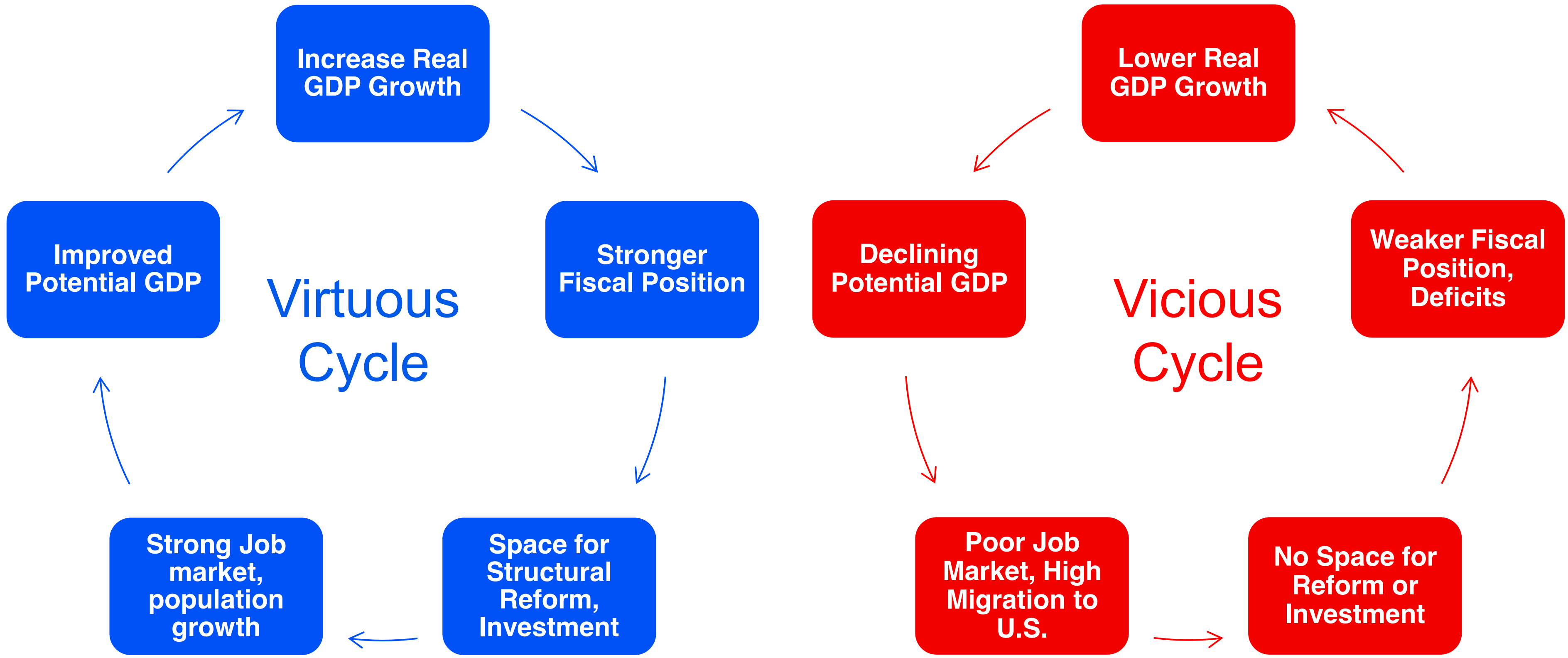
Cost of Living[3][4]

Rank	Urban Area	Cost of Living Index
1.	Manhattan, NY	227
2.	Honolulu, HI	188
3.	San Francisco, CA	176
4.	Brooklyn, NY	173
	…	
47.	San Juan, PR	112
	…	
296.	Richmond, IN	81
297.	Harlingen, TX	80
298.	McAllen, TX	78
		Average = 100

Though Puerto Rico's per capita disposable income is only ~40% of the U.S. average, ~70% of the population of Puerto Rico lives in the San Juan MSA, which is ranked 47th highest out of 298 U.S. metropolitan areas and 11.6% above the average due to some of the highest prices for utilities, groceries and goods and services in the country[3]

(1) U.S. Census Bureau. Current Population Survey, Annual Social and Economic Supplement, 2015 United States data. Puerto Rico poverty level based on 2014 American Community Survey 1-Year estimates.
(2) GDB Statistical Appendix (Selected Series of Income and Product, Total and Per Capita). U.S. Bureau of Economic Analysis (U.S. Personal Income and Population).
(3) The Institute of Statistics of Puerto Rico. Index Cost of Living, June 17, 2016.
(4) Council for Community and Economic Research.

Breaking the Vicious Cycle



Austerity measures have not reversed Puerto Rico's economic decline nor helped Puerto Rico's impoverished residents. All the measures outlined further in the Fiscal Plan are based on the guiding principle that more austerity measures are simply not the answer to Puerto Rico's current crisis.

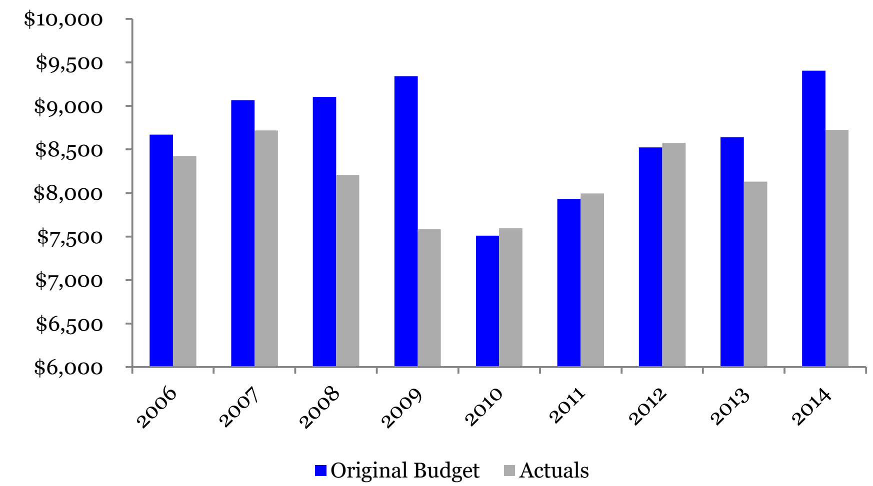
Core Principles of the Fiscal Plan

2. Improve Budgetary Controls and Financial Transparency

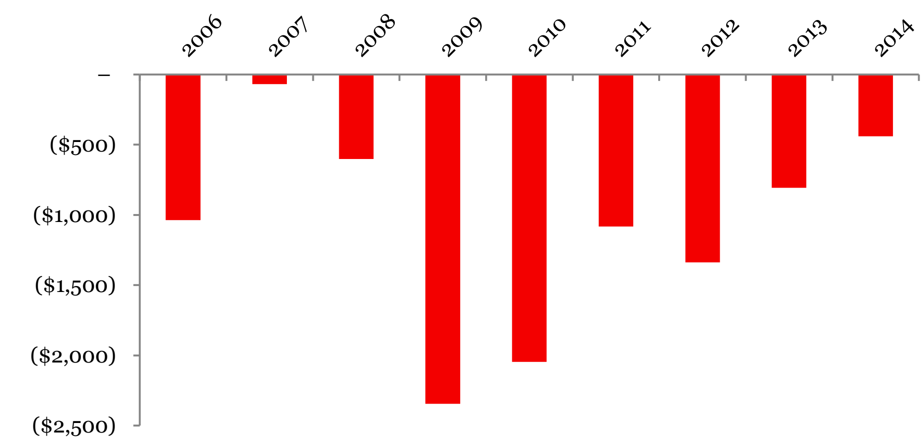
Fiscal Plan Must Address Legacy of Lax Budget Controls, Fragmented Decision-Making and Delays in Presentation of Fiscal and Economic Information

The Commonwealth has historically failed to meet revenue estimates, failed to control spending, and failed to consistently produce timely financial statements

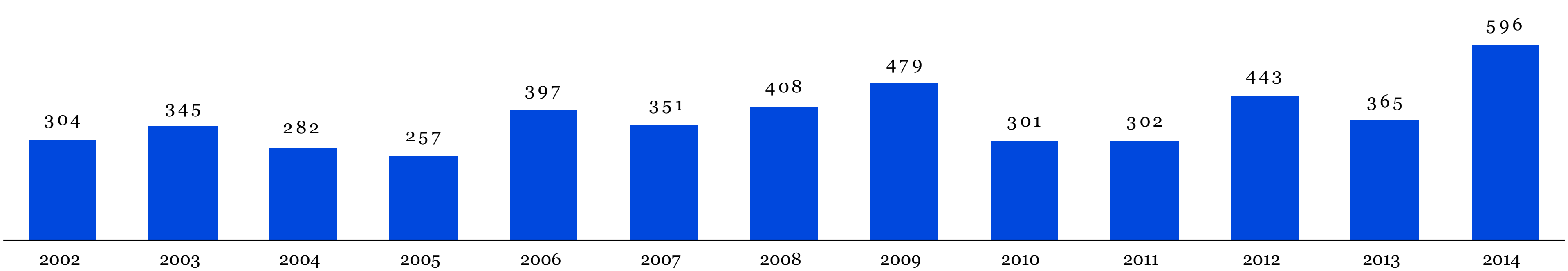
General Fund Revenues(1) ($ millions)



General Fund Actual Deficit(1) ($ millions)



Days to Produce Fiscal Year Audited Financial Statements(1)



(1) Commonwealth of Puerto Rico CAFR, Statement of Revenues, Expenditures, and Changes – Budget and Actual – Budget Basis – General Fund.

Institute New Budgetary Rules and Practices to Impose Budgetary Discipline

Reform Budgetary Rules and Processes

In light of the Commonwealth's chronic budget deficits and repeated failure to meet revenue estimates, it should institute new rules and practices to impose budgetary discipline. Without effective budgetary and other controls, it will be challenging to measure performance under the Fiscal Plan and make necessary real-time adjustments

Budgetary Planning and Implementation

- Require Budgets to be prepared in accordance with "Modified Accrual Accounting Standards" (as defined by GASB)
- Implement multi-year budgeting requirement to identify trends and enable long-term planning
- Eliminate Commonwealth's Special Revenue Funds, and account and budget for all revenue and expenditure transactions in the General Fund (except for Federal Grants)
- Improve revenue projections by relying on third-party validation process
- Implement quarterly General Fund budgetary revision process based on actual revenues and expenditures in order to make timely budgetary adjustments

Tax Expenditure Inventory and Budget

- Require perpetual inventory of tax credits issued and outstanding in order to measure impact on revenue estimates
- Require periodic reporting on cost/benefit analysis of tax expenditures
- Require Annual Tax Expenditure Budget that prepares annual revenue estimates on a "gross basis", then adjusts to reflect the impact of existing and proposed tax exemptions, exclusions and deductions
- Require annual budgetary approval of tax credits, like any other budget line item

Additional Controls

- Enact regulations so that OMB/Treasury can hold UPR, Legislative Assembly and dependent agencies and public corporations accountable for their expenditures
- Require periodic measurement and reporting of the capture rate of all taxes
- Prohibit legislation with fiscal or budgetary impact to be approved during the fiscal year without new sources of revenues
- Close all operating funds at the end of each fiscal year
- Require Federal Funds reimbursement reconciliation on a monthly basis

Make Fiscal and Economic Data Transparent, Reliable and Timely

Invest in Systems to Develop and Report Accurate Financial Data

Obsolete financial and accounting systems, combined with a lack of integration of agencies under the same platform, hinders the ability to timely monitor expenses, complete annual audits and publish fiscal and financial data

- Invest in new financial, accounting and payroll systems to streamline internal accounting and reporting processes and sharing of information in order to provide real-time data and accelerate the preparation and publication of interim and audited financial statements
- Execute agency and public corporation consolidation plan (described in Section 3), which will reduce the number of reporting entities in the Commonwealth's financial statements and simplify related audit procedures
- Consolidate agencies' finance divisions, supplier payment processing and management of federal grants in a shared service center
- Create Commonwealth Financial Reporting Office in order to properly coordinate the production and dissemination of fiscal and financial data within the newly created Department of Treasury and Finance

Strengthen Economic and Statistical Analysis

The Commonwealth must be equipped with transparent, reliable and timely macroeconomic data that allows for better economic forecasting

- Adopt the Institute of Statistics and the Planning Board's five-year plan to strengthen the economic statistical system and analysis by modernizing national accounts with an estimated investment of $3 million per year
- Reorganize and expand Puerto Rico's current five national accounts into seven accounts (Net Income and Gross Product, Personal Income and Outlays, Government Receipts and Expenditures, Foreign Transactions-Current, Foreign Transactions-Capital, Gross Savings and Investment and Private Sector Income)
- Present national accounting statistics in accordance with the 2008 United Nations standards and publish full sets of quarterly statistics
- Develop a new forecasting model for Puerto Rico's national accounts with technical assistance from the U.S. Bureau of Labor Statistics and the U.S. Bureau of Economic Analysis

Enhance Financial Controls and Fiscal and Economic Decision-Making

Ensure all Spending Flows Through a Single Treasury

The Commonwealth currently has a highly fragmented treasury system that lacks emphasis on fiscal and financial controls and provides little visibility of the Government's consolidated financial position. The centralization of treasury functions in the central government can provide significant communication, visibility and efficiency benefits

- Establish by legislation centralized single treasury functions across Commonwealth agencies and dependent public corporations to enhance visibility, reduce financing costs and improve cash flow management
- Single Treasury account should be used for all spending to make sure it is controlled and consistent with the budget
- Single Treasury account will also provide visibility into the Commonwealth's consolidated fiscal position

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Develop Performance Metrics

Agencies lack proper KPI's and benchmarking data that facilitate budget development and execution

- Complete the development of performance metrics for the principal agencies and departments of the Government: Education, Health, Police, Justice and Children and Families
- Establish an electronic system to publish performance metrics in order to improve execution and enhance transparency

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Reorganize Fiscal and Economic Decision Making Structures

A well-structured approach towards financial and economic development decisions will help improve forecasting and financial and economic decision-making

- Consolidate the functions of the Treasury Department, OMB and AAFAF into new Department of Treasury and Finance to better manage and coordinate fiscal and financial policy
- Submit and pass legislation to implement new Department of Economic Development and Commerce organizational structure and business plan

Core Principles of the Fiscal Plan

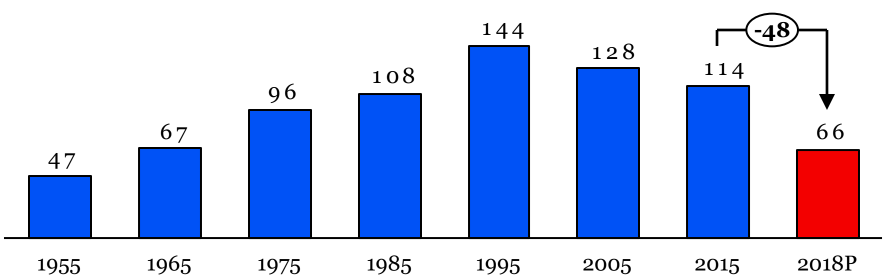
3. Rationalize Expenditures and Tax Policy To Promote Efficiency

The Commonwealth Can Achieve Efficiency Gains by Consolidating Overlapping Agencies and by Further Centralizing Procurement to Capture Cost Savings

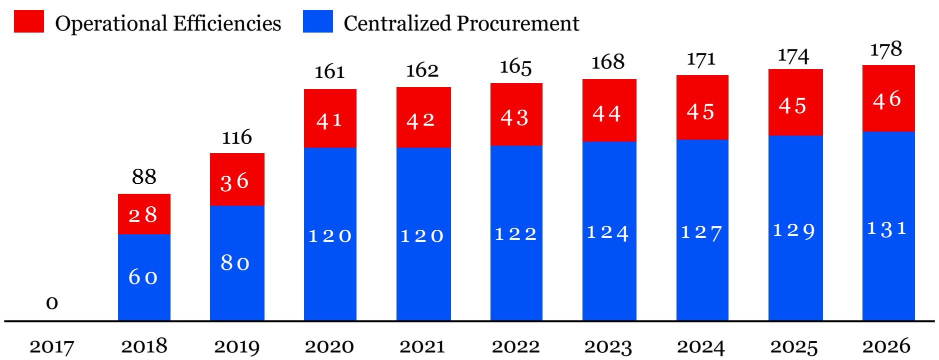
Puerto Rico's government is composed of 114 agencies and public corporations with over 519 local and regional offices throughout the island, creating a highly fragmented structure with redundancies and limited economies of scale

- In order for the Commonwealth to achieve operational efficiencies, it must pursue the following measures:
  - Continue implementation of the Government Reorganization and Efficiency Plan (EO 2015-23), so as to consolidate local government offices and increase the use of technology and shared services
  - A redesign of governmental structures as proposed by OMB and UPR's Public Administration Faculty, which will lead to a consolidation of approximately 48 government entities, generating savings in rent and utilities and facilitating future workforce attrition
- The Commonwealth can benefit from additional operational efficiencies by continuing efforts to ensure that certain purchases of materials and supplies are managed by a new, modern, procurement system in the Puerto Rico General Services Administration, as well as facilitating the process by which local businesses become vendors of the U.S. General Services Administration
  - This is estimated to achieve approximately 4% in savings. Economies of scale made available by Section 406 of PROMESA, which allows the Commonwealth to make purchases through the U.S. GSA, can help meet this goal

Number of Agencies and Public Corporations[(1)]



Estimated Impact vs. Base Projections ($ millions)



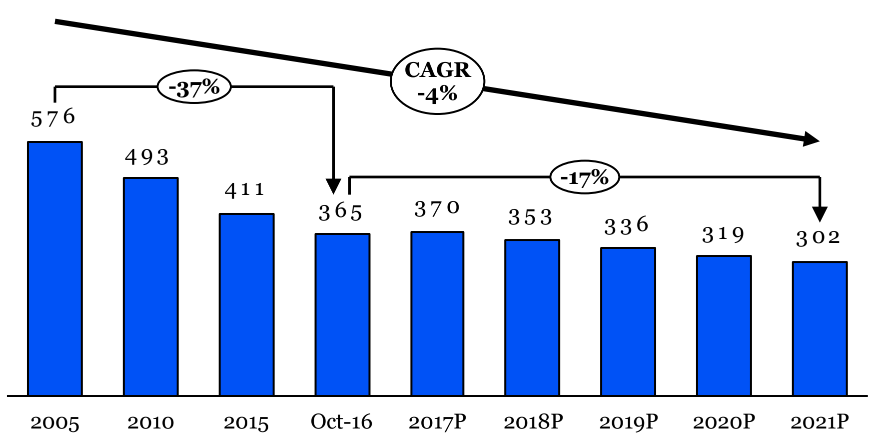
(1) Centro de Estudios Multidisciplinarios Sobre Gobierno y Asuntos Públicos; "Estudio sobre la Organización y el Desempeño de la Rama Ejecutiva".

In Addition to Consolidating Agencies, the Commonwealth Should Continue to Implement its School Consolidation and Reinvestment Program

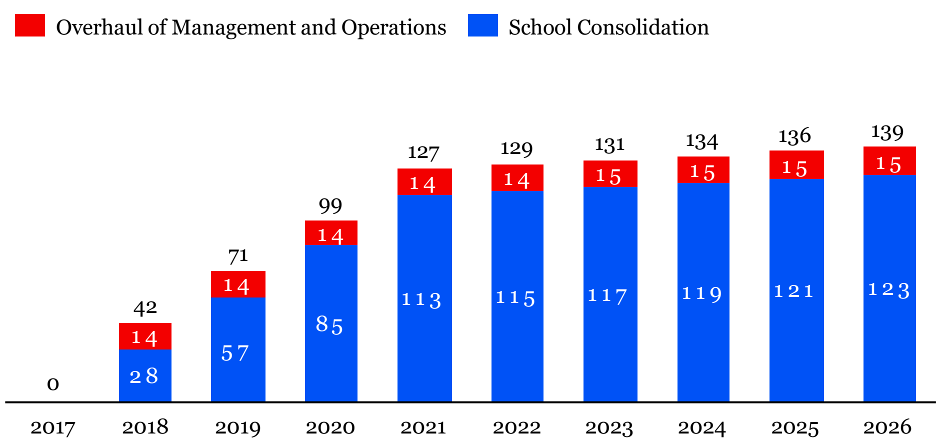
Since 2005, enrollment at PR public schools has declined 37%, which has led to a reduction in school utilization and a decrease in the student to teacher ratio to 12:1, as compared to the U.S. average of 16:1

- In light of the continued decline in enrollment and school utilization, the Puerto Rico Department of Education ("PRDE") will continue to execute its School Consolidation Plan, which it has been carrying out over the last three years (155 schools already consolidated with academic performance increasing in consolidated schools[(1)])
  - The consolidation process is based on specific parameters such as academic performance, enrollment, school utilization and distance. As it continues to right-size its resources, the PRDE will ultimately position itself to deliver higher quality education with better compensated teachers
- The Commonwealth will complete the remaining phases of PRDE's restructuring plan, which requires overhauling management and operations to focus on moving personnel from administrative positions back into school-based positions

Actual and Projected Student Enrollment (in thousands) [(2)]



Estimated Impact vs. Base Projections ($ millions)



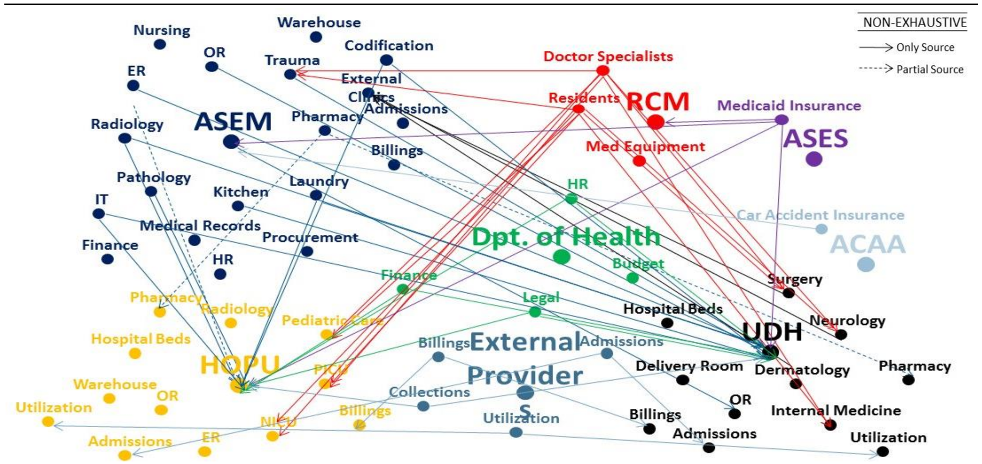
(1) Based on standardiszed tests (META PR)
(2) Department of Education's historic, actual and projected student enrollment as of October 2016.

Given the Interconnectedness of Puerto Rico's Hospital Systems, the Commonwealth Can Also Achieve Cost Savings Via Hospital Consolidations

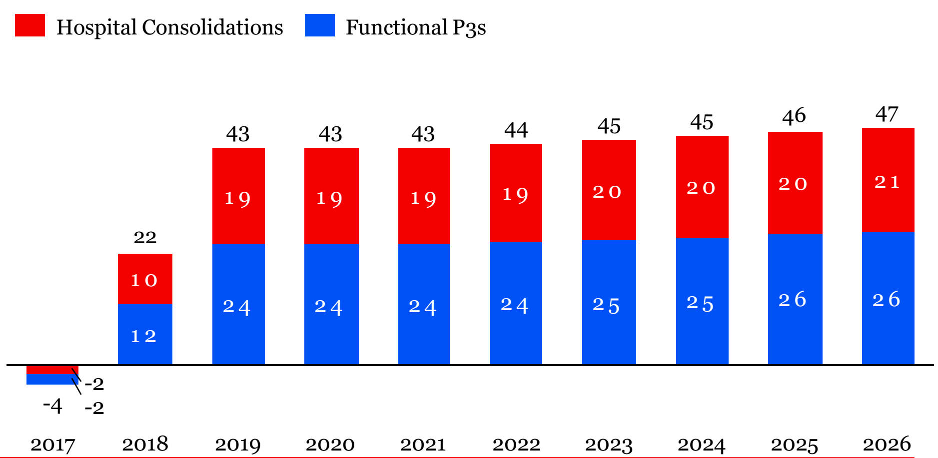
The Puerto Rico's hospital system is highly fragmented and can capture significant efficiency gains by integrating hospital administration and leveraging P3s

- Creating the Puerto Rico Medical Center Campus organized around specialty institutions will integrate all government hospitals into a single organization
  - Phase 1 contemplates merging Administration of Medical Services of Puerto Rico ("ASEM"), the University Hospital and University Pediatric Hospital ("HOPU")
  - Phase 2 would further merge the Industrial Hospital, currently run by the State Insurance Fund, as well as other government-run hospitals
- Implementing functional P3s at state hospitals (billings, admissions, maintenance and food services, among other support services) will bring best in class practices, centralize functions and streamline processes

Interconnected Relationship Among Health Care System[(1)]



Estimated Impact vs. Base Projections ($ millions)



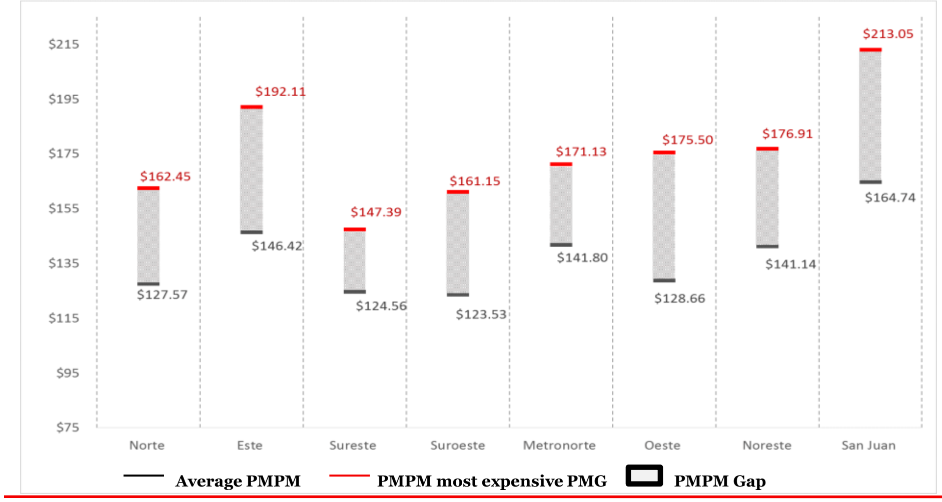
(1) Interviews, V2A Analysis. "RCM" stands for UPR's Medical Sciences Campus.

Puerto Rico Must Implement Measures to Control Increasing Health Care Costs

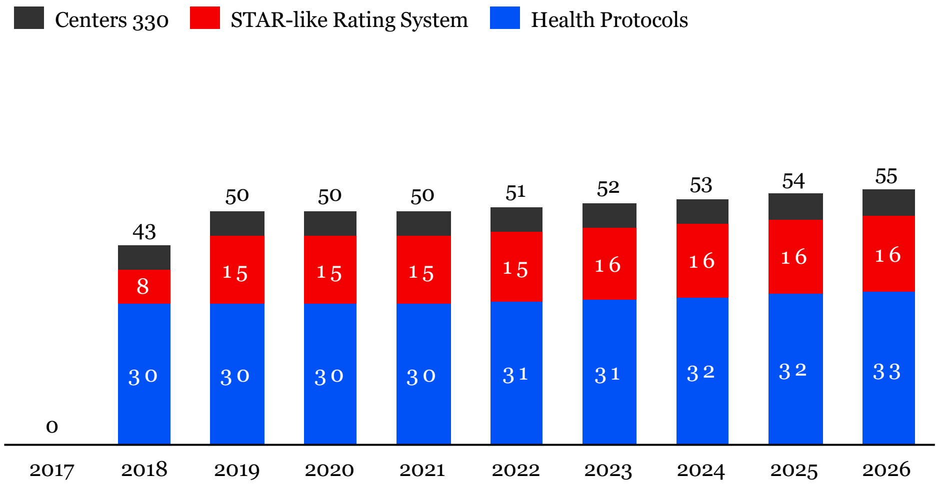
Puerto Rico's health care system should implement initiatives designed to improve medical quality, utilization and cost

- Implement STAR-like[(1)] rating system and establish a provider payment scale based on performance
  - ASES is developing a Primary Medical Group ("PMG") quality monitoring program that would allow the agency to monitor quality, utilization and cost of the Commonwealth healthcare program ("Reforma")
- Standardize health protocols and fee schedules by creating a uniform guide for medical procedures and corresponding medical service fee schedules
  - These initiatives are designed to decrease medical costs close the per member per month ("PMPM") gap among PMGs, as shown in the graph below
- Reduce the number of federally qualified healthcare centers receiving grants under Section 330 of the Federal Public Health Service Act that are located near existing hospitals or clinics and adjust the wrap-around payment formula for services rendered by these centers to beneficiaries of Reforma

PMGs Max and Average PMPM Cost[(2)]



Estimated Impact vs. Base Projections ($ millions)



(1) Centers for Medicare and Medicaid Services ("CMS") Five Star Quality Rating System.
(2) ASES' "Proyecto de Evaluación y Monitoreo de Calidad de Proveedores" 2015-2016.

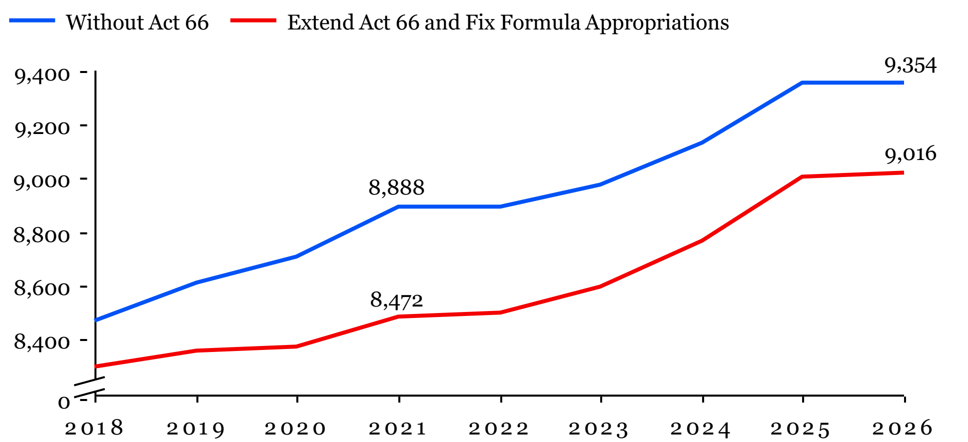
Case:17-03283-LTS Doc#:7561-15 Filed:06/21/19 Entered:06/21/19 22:54:55 Desc: Exhibit O Page 39 of 101

Additional Cost Savings Can Also Be Achieved by Avoiding Programmed Expenditure Increases That Are Not Based on Assessments of Need

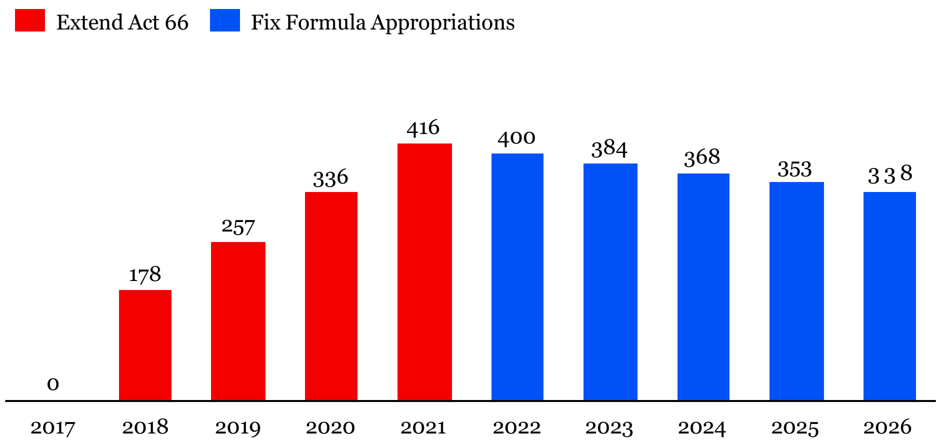
Act No. 66-2011, which froze new hires, salaries and formula-based appropriations, is due to expire in June 2017. The Fiscal Plan extends most of Act 66's fiscal control measures and proposes to permanently repeal formula appropriations and convert them to fixed amounts adjusted annually by inflation

- The Fiscal Plan proposes to extend through FY 2021 Act 66's freeze of new hires, formula-based appropriations for UPR, the Judicial Branch and municipalities, as well as a freeze of service costs, increases in salaries and collective bargaining agreements
- After FY 2021, the Fiscal Plan permanently fixes these appropriations at their fiscal year 2014 levels and only allows them to grow after 2021 at the rate of the previous fiscal year's inflation[1]

Adjusted General Fund Budgeted Expenses [2] ($ millions)



Estimated Impact vs. Base Projections ($ millions)



(1) Net Revisions to GF Budget Formulas, Payroll, Operating Expenses and Water Utilities represents the effective replacement for the reduction in municipalities subsidies and Extend Act 66 measures after FY2021 to continue capturing savings already achieved

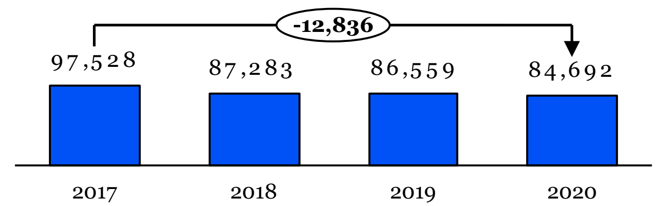
(2) Adjusted General Fund Budget excluding debt service and AUC's embedded in the General Fund.

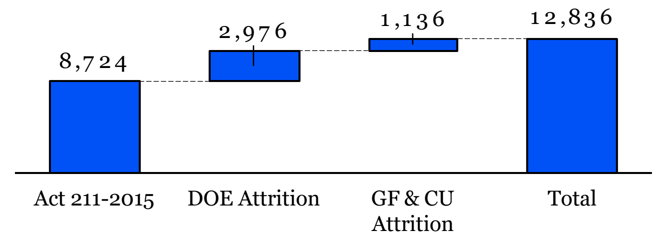
To Reduce Their Potential Economic Impact, Proposed Workforce Related Cost Savings Are to Occur Through Retirement or Attrition

The Fiscal Plan calls for the Commonwealth to reduce its payroll costs, but does so through a 2% annual payroll attrition target that relies on the Commonwealth replacing departing workers only when necessary

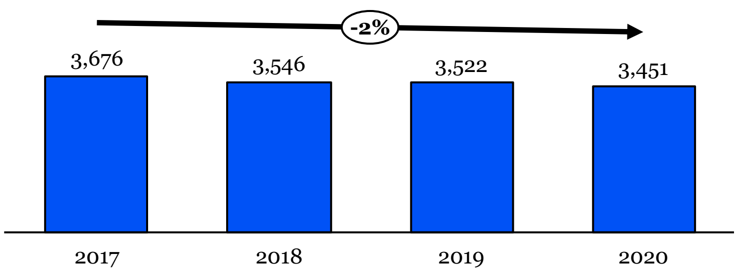
- In order to achieve these attrition targets, the Office of Management and Budget ("OMB") will:
  - Implement Act 211-2015 offering Pre-Retirement Program (PRP) windows to select public sector employees
  - Implement new government-wide employee classification programs to improve mobility and allocation of human resources
- The Commonwealth will benchmark public sector benefits to those of the private sector, which would also work to increase productivity and facilitate attrition efforts

Estimated Employee Headcount Attrition[1]

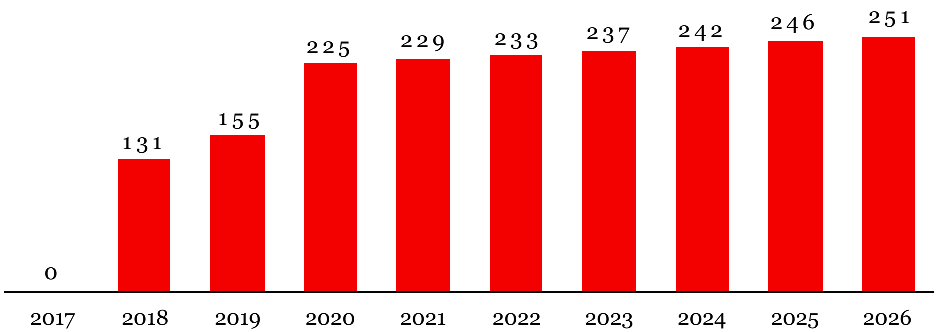




Estimated Payroll Costs[2] ($ millions)



Estimated Impact vs. Base Projections ($ millions)



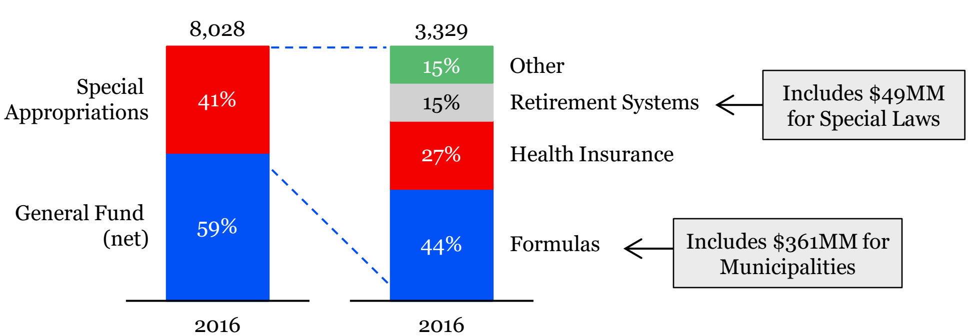
(1) Estimated headcount based on OMB's analysis of General Fund and Component Units employees included in the Base Projections, excluding the University of Puerto Rico. Impact of Act 211-2015 based on preliminary analysis of employees that meet basic criteria.
(2) Act 211-2015 attrition estimate based on initial estimates of eligible employees.

Reduce Subsidies and Other Special Appropriations

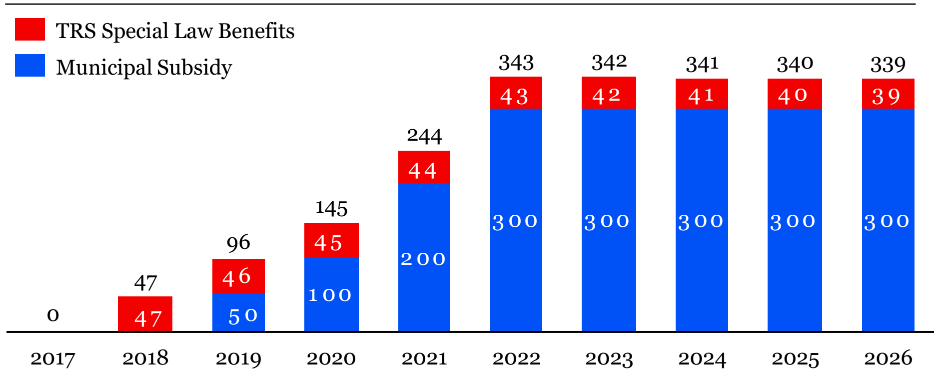
The central government's precarious fiscal situation is exacerbated by sizable subsidies to other governmental entities, including municipalities, as well as by benefits legislated through special laws

- The Commonwealth would enact legislation beginning in FY 2018 to gradually adjust subsidies provided to the municipalities by the central government, while also empowering the municipalities with the proper legal, administrative and operational tools to offset such a decrease
  - Municipalities may present revenue generation and expense reduction initiatives, which may include changes to municipal license fees, modernization of property tax regimes and municipal consolidations, among others
- Note that the municipalities are contributors to the Employees Retirement System and the Fiscal Plan assumes that the central government does not cover any amounts related to the municipalities (approximately $100MM per year). The municipalities ability to contribute such amount could be at risk, particularly if they are not made covered entities
- In addition, the Commonwealth would modify special laws benefits granted to the Department of Education's employees that retired before 2014, Christmas bonus, medicine bonus, and medical insurance plan continuation, which are in addition to the benefits related to pensions
- Formula appropriation to UPR is to be frozen until 2021 and thereafter only grown at inflation. No further cuts are contemplated due to the importance of higher education to the island's economic development
  - UPR will need to implement measures to enhance efficiency and re-invest in education

Adjusted FY2016 General Fund Budgeted Expenses [1] ($ millions)



Estimated Impact vs. Base Projections ($ millions)



(1) Adjusted General Fund Budget excluding debt service.

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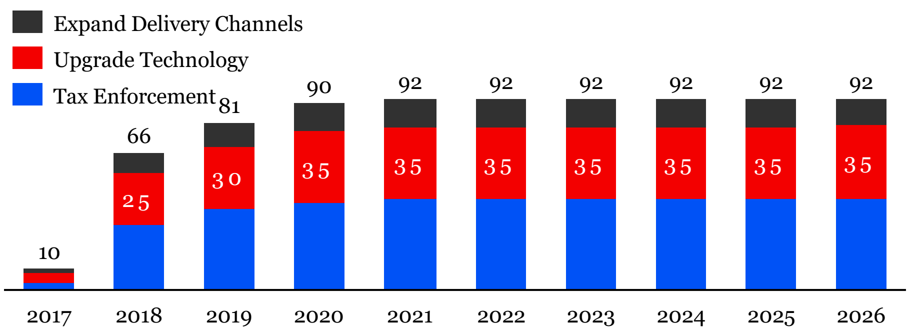
The Commonwealth Must Increase Revenue Collections by Boosting its Capture Rate and Reducing Tax Evasion

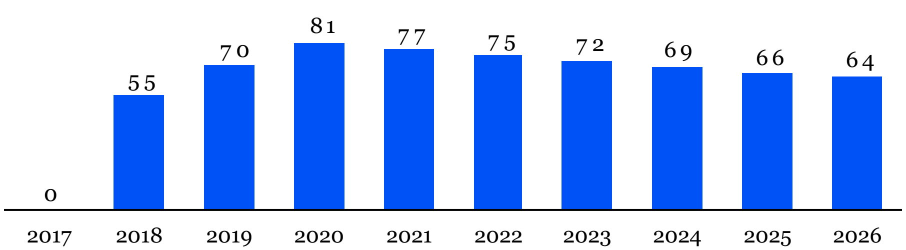
The Commonwealth lacks an effective tax administration infrastructure, resulting in significant tax evasion and high administrative and compliance costs. In order to increase capture rates the Commonwealth will:

- Upgrade technology and leverage its use by:
  - Improving Integrated Merchant Portal System (PICO)
  - Implementing New Internal Revenue Integrated System (SURI)
  - Implementing Automated System for Customs Data (ASYCUDA)
- Expand alternative delivery and payment channels' capabilities by:
  - Increasing transactions and services online, through a call center and in banks and credit unions
  - Transforming its 89 collection centers into 27 Integrated Service Centers throughout the island
- Improve tax enforcement by:
  - Restricting the use of amnesties and closing agreements to increase revenue certainty and reduce tax evasion
  - Leveraging joint ventures between the Central Government and municipalities for greater SUT oversight [2]
  - Creating the Office of Tax Return Compliance and Office of Transfer Pricing Policies
- Tackling widespread use of illegal video lottery machines that erode Puerto Rico's tax base by implementing and enforcing tax on, and regulating, video lottery games
- Require periodic measurement and reporting of the capture rate of all taxes

Estimated Impact ($ millions)



Estimated Impact of Video Lottery[1] vs. Base Projections ($ millions)



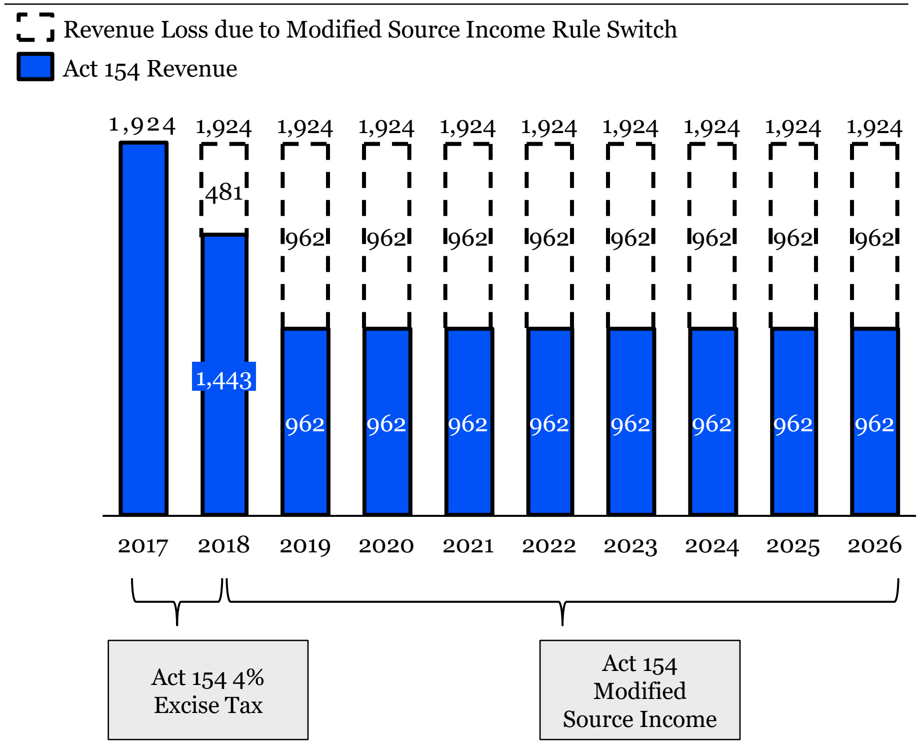
(1) Video Lottery estimates based on Christiansen Capital Advisors, LLC study adjusted for Puerto Rico income levels. Estimates are net of ~35% allocation to CRIM.
(2) Joint Ventures exist for 48 municipalities. Remaining 30 joint ventures are expected to be completed under this measure.

The Commonwealth Must Address Upcoming Act 154 Revenue Cliff by Changing its Tax Code to Substitute Projected Revenue Shortfalls

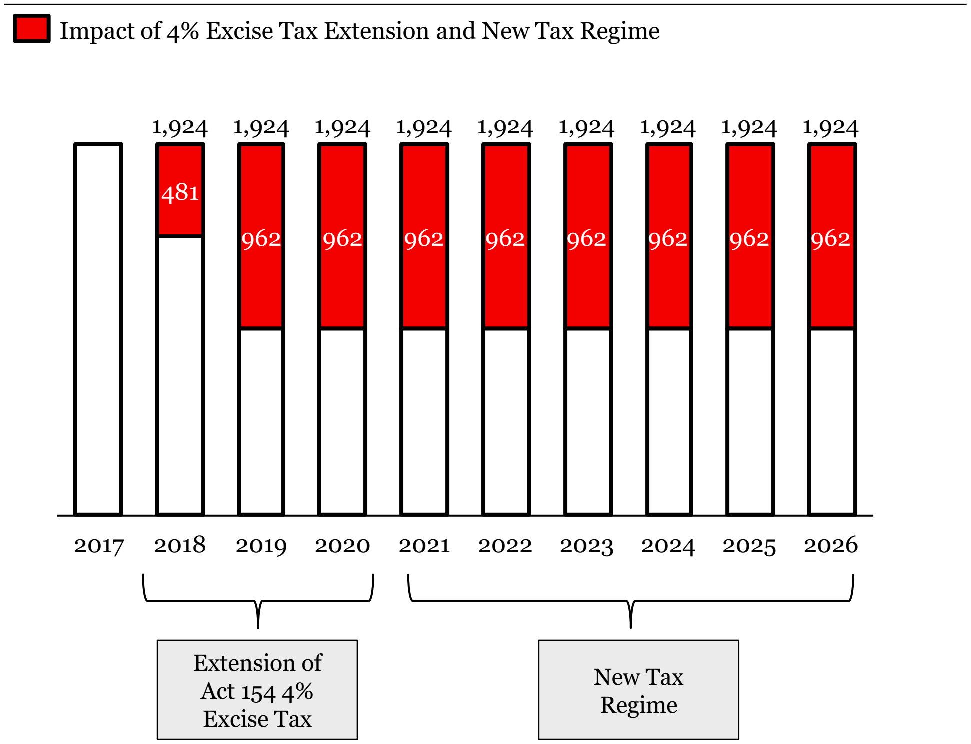
The Commonwealth is currently highly dependent on receipts from the Act 154 excise tax (approximately 21% of General Fund revenues), which is due to be replaced by a "Modified Source Income Rule" tax in December 2017 (FY 2018). Extension of Act 154's excise tax for a short transition period is necessary in order to ensure revenue certainty while a new corporate tax regime for multinationals is implemented

- Act 154's transition in FY2018 to a tax based on the Modified Source Income Rule is estimated to result in a loss of half of estimated tax revenues. The Commonwealth proposes to temporarily extend Act 154 excise tax (2-3 years) to give the government sufficient time to renegotiate individual tax grants and reform its tax code such that it replaces Act 154 revenues in full to current levels
  - Assumes no adverse decisions by the IRS during this interim period

Act 154 Projected Revenues - Pre Measure ($ millions)



Impact of Measure ($ millions)



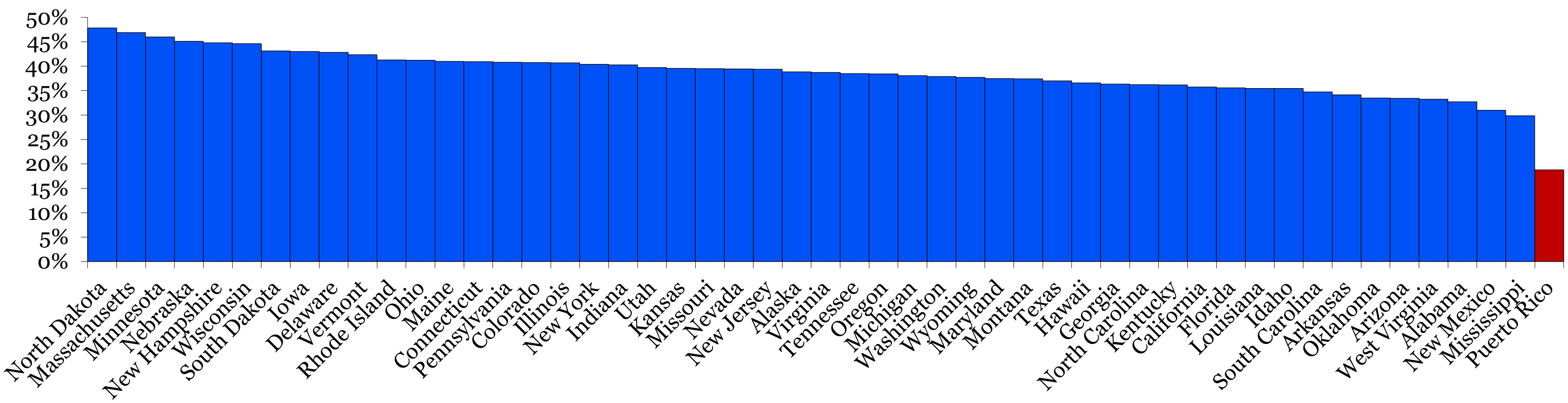
Core Principles of the Fiscal Plan

4. Enact Structural Economic Measures and Invest in Growth

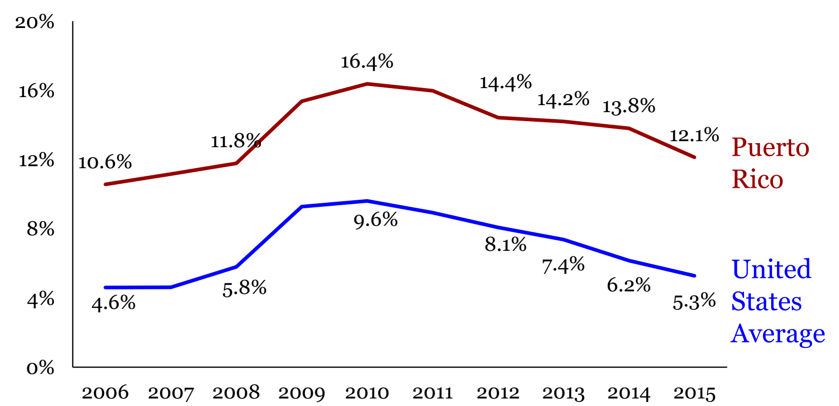
The Plan Must Boost Private Employment and Labor Force Participation Levels, Which Are the Lowest in the United States

The number of private sector jobs in Puerto Rico as a percentage of the total population is materially lower than any mainland state, helping drive high unemployment, which is double that of the U.S. average, and a low labor force participation as Puerto Rico residents face dismal job prospects(1)

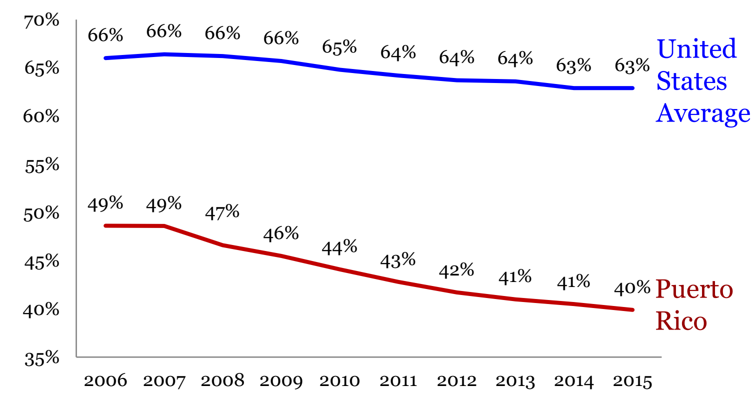
Private Payroll Employment as a Percentage of Total Population by State – 2015(2)(3)



Puerto Rico Unemployment Rate 2006-2015(4)



Labor Force Participation 2006-2015(5)



(1) Reflects percentage of people working or looking for work over the total population over 16 years of age.
(2) U.S. Department of Labor. Employment as of July 2016 and population as of July 2015.
(3) U.S. Census Bureau.
(4) Bureau of Labor Statistics (Non-Farm Payroll Employment Survey).
(5) Puerto Rico Fiscal Authority Agency and Financial Advisory Authority. U.S. figures from the Bureau of Labor Statistics Current Population Survey and represent January values.

The Commonwealth Must Implement Structural Reforms to Increase Labor Demand and Participation

Only 40% of Puerto Rico's adult population (vs. 63% in the U.S.) is employed or looking for work. A significant portion of the population is either receiving welfare, informally employed or both. The Commonwealth must adopt pro-growth labor market policies, implement an earned income tax credit program and reform welfare programs

- The Puerto Rico private labor market is subject to federal labor regulations and unique local regulations such as 8-hour work days based on calendar days (instead of 24-hour periods) and mandatory Christmas bonus and severance payments
- For Puerto Rico to increase its competitiveness and labor participation, and cognizant of the fact that Puerto Ricans can move freely to the mainland, the Commonwealth must review its labor laws in order to pursue two dual objectives:
  - Preserve its revenue base
  - Increase labor participation rates

In the FEGP, the Commonwealth previously proposed to enact labor reforms that included: paying overtime calculated based on hours worked in excess of 40 hours per week, easing the process to waive the Christmas bonus, and limiting the mandatory severance to six months. Puerto Rico's continuing economic contraction and increasing outmigration illustrates an urgent need not to reduce personal incomes of Puerto Rico's residents, which could induce further outmigration. Any labor reform must be evaluated in light of those circumstances. Further, the Commonwealth believes that any reduction in the minimum wage would be an incentive for people to migrate to the mainland

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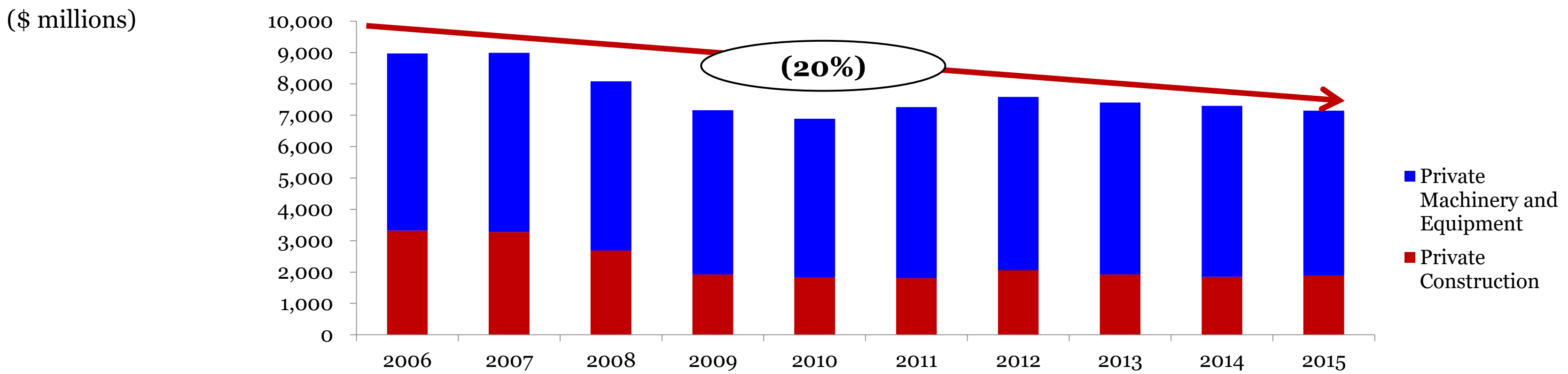
The Commonwealth Must Implement Structural Reforms to Increase Labor Demand and Labor Participation (cont.)

	Initiative	Highlights
Establish EITC	▪ Establish an EITC that targets families with children, headed by working age persons, to stimulate employment among low-wage workers, reduce informal economy activities, bring families into the tax system and offset sales tax regressivity	✓ Invest ~$150 million per year in EITC program ✓ Former Commonwealth EITC program (2006-2014) did not differentiate among claimants by filing status, presence of dependents or age of the tax filers
Welfare Reform	▪ Reform Nutritional Assistance Program ("NAP") Benefits	✓ Modify NAP income thresholds for the Commonwealth so that program participants experience a more gradual and income-targeted reduction in NAP benefits when entering the workforce to eliminate the current cliff effect on benefit reduction
	▪ Apply to US Department of Housing and Urban Development ("HUD")'s "Moving to Work" program to receive waivers of rules that govern public housing and federal Section 8 voucher program	✓ Program's goal is to give incentives to families with children, where the head of household is working, seeking work, or is preparing for work to obtain employment, become economically self-sufficient and increase housing choices for low income families ✓ After receiving waiver, local Housing Department to develop rent structures that allow residents to increase their earnings through work without penalty
	▪ Apply to HUD's "Jobs Plus Pilot Program"	✓ Program incentivizes employment through income-disregards for working families, and provides a set of services designed to support work including employer linkages, job placement and counseling, educational advancement, and financial counseling

The Plan Must Set Forth Reforms Designed to Reverse Recent Dramatic Declines in Private Sector Investment

Following the full phase-out of Section 936 in 2006, private investment in Puerto Rico has declined dramatically. Today, private investment as a percent of GNP(1) is nearly half of the level in 2006, when the phase out of Section 936 began. Furthermore, Puerto Rico has not created an attractive platform to attract and replace foregone investments

Puerto Rico's Nominal Gross Fixed Investment – Private Sector (Construction, Machinery & Equipment) 2006 to 2015[(2)]



Puerto Rico's 2016 Ease of Doing Business Ranks (Overall Ranking Out of 189 Countries)[(3)]

(1) By Final Demand Category.
(2) GDB Statistical Appendix.
(3) World Bank Group Doing Business rankings.

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Reduce Energy and Transportation Costs, Institute Pro-Growth Tax Regime and Streamline Permitting to Foster Investment and Ease of Doing of Business

Puerto Rico has been losing competitiveness as measured by global reports produced by the World Economic Forum and the World Bank, where it currently ranks worse than over 50 countries. To jumpstart its economy, Puerto Rico must be equipped with a business-friendly environment that is conducive to sustained economic growth

	Initiative	Highlights
Enact Permit Reform	▪ Pass legislation to centralize and streamline permitting process ▪ Consolidate Environmental Quality Board, Solid Waste Authority and Natural and Environmental Resources Department in order to simplify and streamline the environmental review process	✓ Pass legislation to centralize and streamline permitting process ▪ Centralize permit application processes in the Office of Management of Permits ("OGPe"), providing a single access point and electronic permit interface for all agencies and municipalities ▪ Provide for a 7-day agency response period for "Categorical Exclusions" (e.g., minor lot designation variations for low impact environmental construction works); applications deemed granted if agency has not ruled on permit during said period ▪ Require municipalities to adopt simplified uniform general permitting regulations ("*Reglamento Conjunto*") ▪ Adopt a joint general construction permit and expedited application procedure for "low impact" construction projects

Reduce Energy and Transportation Costs, Institute Pro-Growth Tax Regime and Streamline Permitting to Foster Investment and Ease of Doing of Business (cont.)

	Initiative	Highlights
Implement Pro Growth Corporate Tax Regime(1)	▪ Enact legislation to amend Puerto Rico's Internal Revenue Code to implement flatter, lower-rate corporate tax regime for both new and existing companies	✓ Reduce nominal corporate tax rates ✓ Eliminate inefficient corporate deductions and tax credits; eliminate or reduce alternative minimum tax ✓ Enact legislation, after dialogue with existing multinationals, to retain and attract foreign direct investment
Enact Reform to Stabilize Energy Rates	▪ Develop a holistic island-wide energy strategy to reduce and control energy rates to increase Puerto Rico's competitiveness and decrease the cost of doing business	✓ Restructure PREPA's debt and operations to produce cash flow relief to invest in necessary infrastructure and stabilize rates ✓ Seek P3 opportunities to upgrade existing generation capacity and build new, efficient generation plants, allowing PREPA to transition into a transmission and distribution company ✓ Depoliticize PREPA by attracting professional, external management and directors
Reduce Transportation Costs	▪ Ask U.S. Congress to repeal Jones Act's application to the Commonwealth in order to reduce maritime transport costs to the island ▪ Review current ground transportation regulatory framework and associated costs	✓ Insist upon temporary administrative waiver from US Government in energy related transports

(1) Impact of this measure is not incorporated in the model, as reform is being designed. But it presents another risk on the revenue projections of the Commonwealth.

Puerto Rico Should Utilize the Savings from its Efficiency Measures to Fund Investment and Build a Liquidity Cushion to Promote Stability and Spark Growth

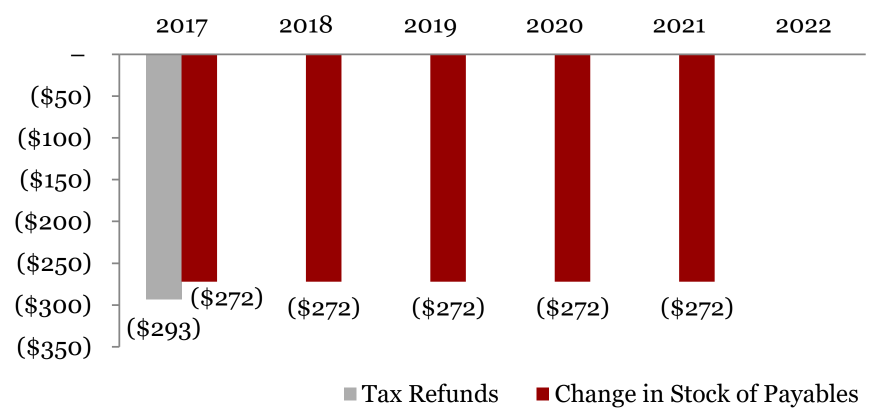
The Fiscal Plan includes measures to repay estimated outstanding third-party payables so that tax refunds are no longer delayed and payables remain outstanding for a maximum of 60 days

- The Commonwealth's liquidity crisis has been exacerbated by the Commonwealth's lack of "TRANs" financing to cover intra-year working capital needs. Such needs have increased materially during the last decade due in part to the assignment to COFINA of the first revenues from the SUT
- The National Association of State Budget Officers produces semi-annual fiscal surveys, which indicate that cash balances as a percentage of expenditures were approximately 9% from FY 2014 through FY 2017[1]

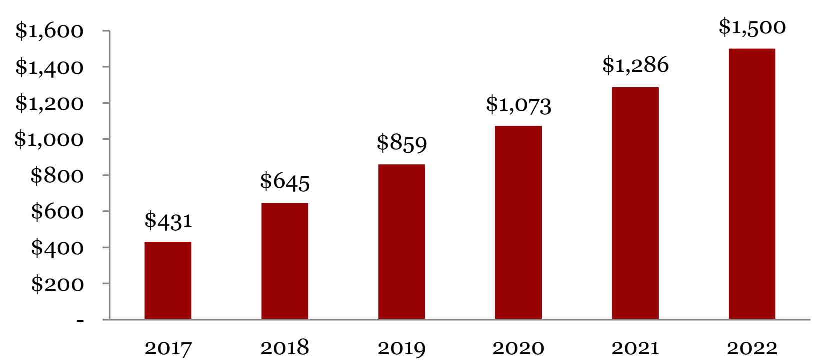
Paying local businesses for past services and paying tax refunds in a timely manner will both stimulate the economy and provide certainty that the Government will be able to continue providing essential services

The Fiscal Plan calls for the Commonwealth to build deposits in order to provide confidence to businesses and residents that it will have sufficient reserves to maintain uninterrupted essential services and respond to crises, and not disrupt private sector activities

Projected Change in Tax Refund Payables and Other Payables FY2017-FY2022[1] ($ millions)



Projected Deposit Balance at Beginning of FY2017-2022[3] ($ millions)



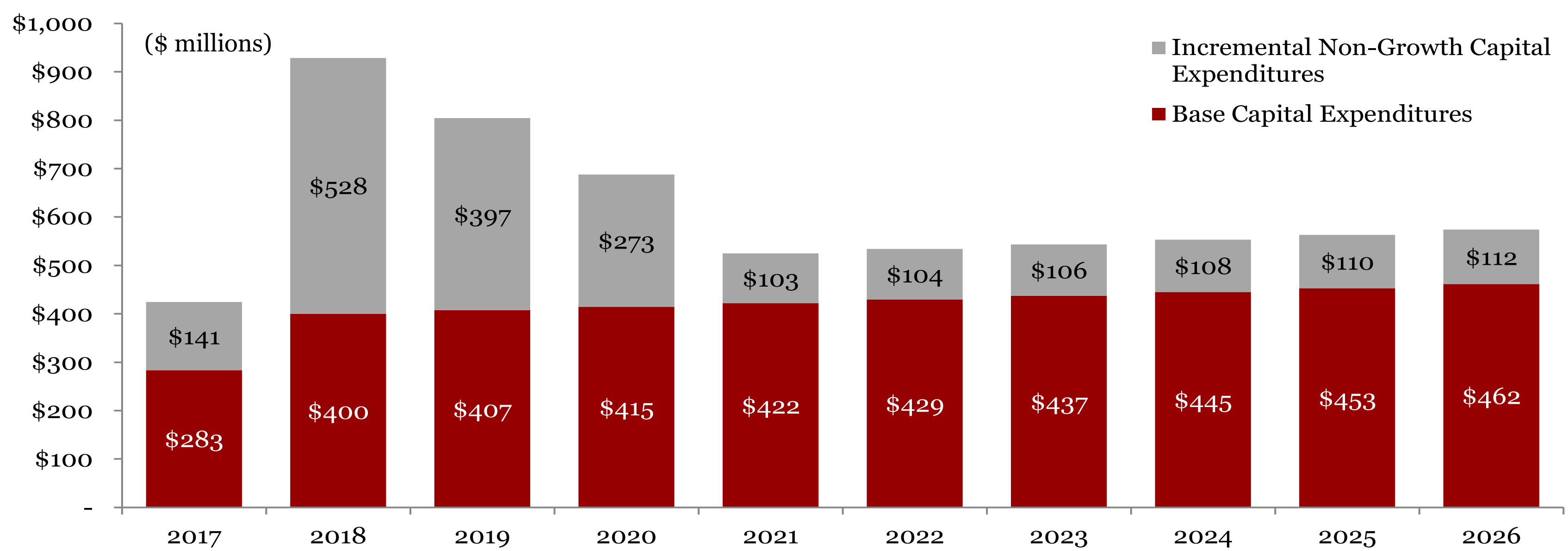
(1) Data analyzed for Puerto Rico includes Golf Coast States, excluding Texas. 2014 and 2015 data represent actual figures, 2016 are estimated and 2017 are recommended.
(2) Includes police back pay.
(3) Starting FY 2017 deposit balance represents estimated starting balance of the TSA and certain entities included in the Fiscal Plan.

Capital Expenditures Must Be Adequate to Maintain the Existing Infrastructure Base

The Fiscal Plan includes spending on capital projects required to catch-up on deferred maintenance on roads, bridges, buildings and other critical infrastructure

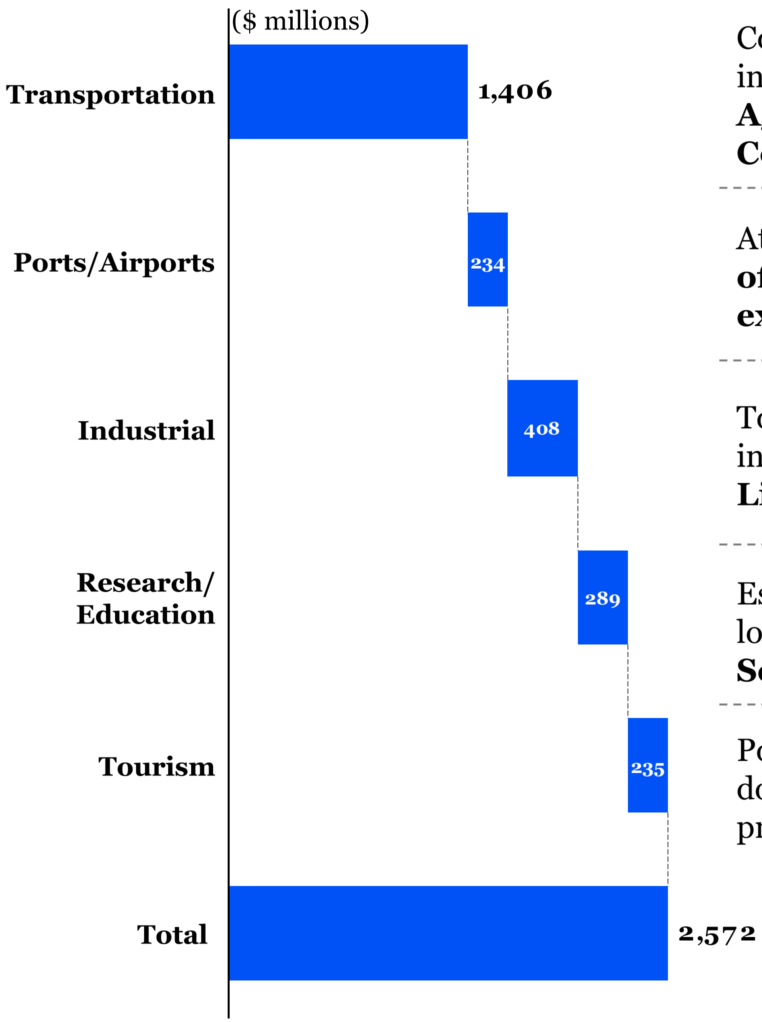
- PREPA and PRASA are not included in the Fiscal Plan and incremental capital expenditures at those entities is also necessary
- Additionally, the amounts shown below are only for maintaining the Commonwealth's current infrastructure and complying with current regulatory regimes; the totals shown do not include new infrastructure projects aimed at improving growth, which are discussed elsewhere
  - The "Base Capital Expenditures" shown below in FY 2017 are based on the OMB budget after deducting estimated federal funding. FY2018-2026 in the Base Projections are based on a review of recent historical data, while spending on existing infrastructure in the measures is based on a set of specifically identified projects needed for maintenance and judgement related capital expenditures. The grey amounts correspond to the incremental total spending required for the specific projects over the Base Capital Expenditures

Projected Necessary Base Capital Expenditures and Incremental Non-Growth Capital Expenditures, 2017-2026



Plan Must Also Invest in Strategic, Growth Enhancing Infrastructure

Puerto Rico's economic growth will be driven by investing in significant infrastructure projects that improve and facilitate transportation (roads and highways), modernize airport and port facilities and boost strategic economic development sectors (e.g. life sciences, knowledge services, research, tourism)



Complete large-scale strategic projects to improve accesses and competitiveness including the **Northwest Corridor (PR-22 highway from Hatillo to Aguadilla), the redevelopment of Roosevelts Roads, and the Caguas Commuter Rail**

Attract economic development, private investment, and tourism by expanding the **Port of the Americas value added zone, improving the Aguadilla airport, and expanding the Panamericano docks** to attract Quantum-like mega cruise ships

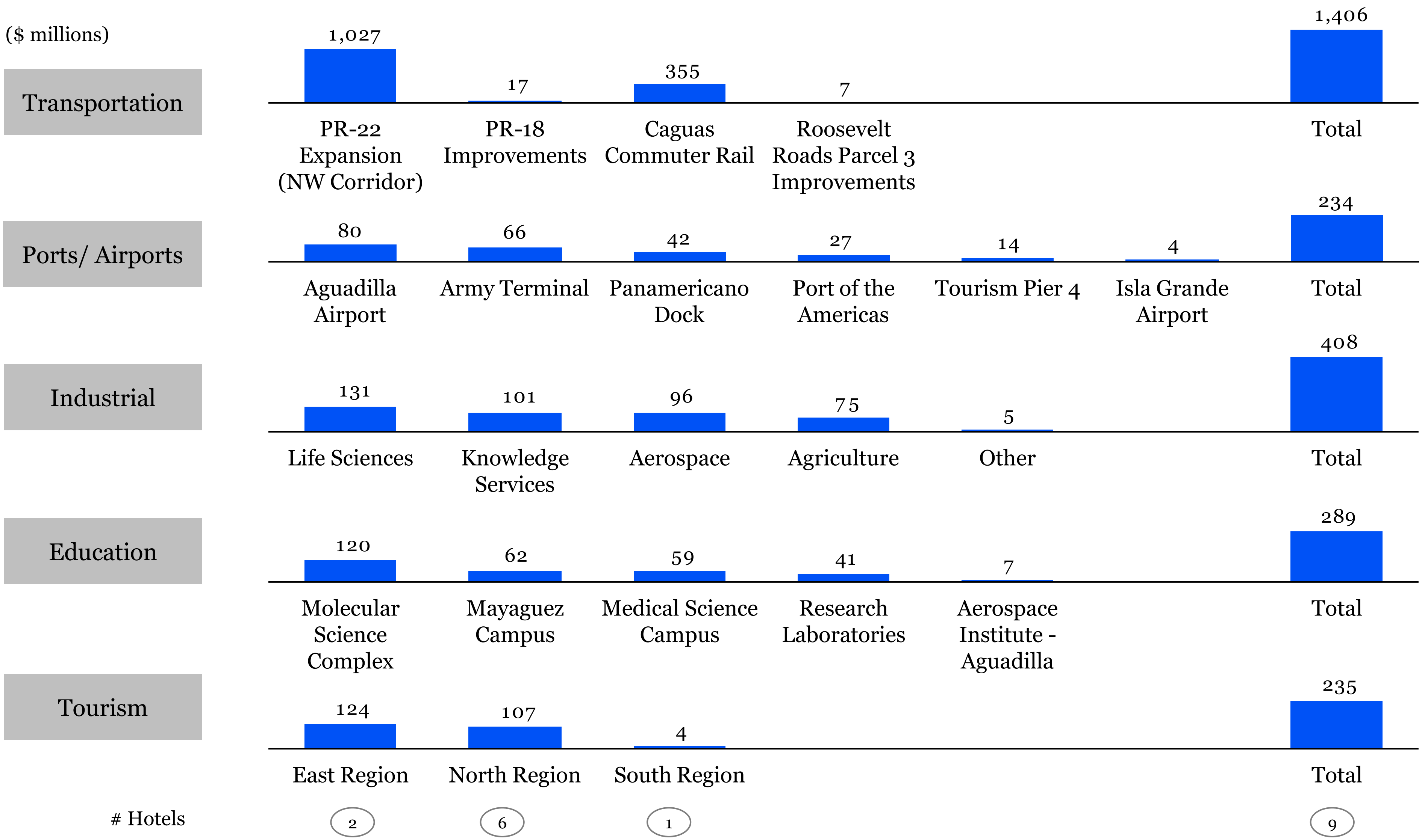
To effectively compete in the world stage, strategic investments are needed in industrial parks and key economic sectors including **Aerospace and Defense, Life Sciences, Knowledge Services, Agriculture** and other sectors

Establish the UPR as a prominent scientific research center to provide a boost to the local economy **(Molecular Science Complex, Mayaguez Campus, Medical Science Campus, Other)**

Position Puerto Rico as one of the premiere travel destinations of the world for local, domestic and foreign travelers by supporting the financing of 9 hotel construction projects currently on hold

Plan Identifies Strategic Projects Aimed at Promoting Growth

Puerto Rico would need to invest $2.6 billion in these projects in addition to any potential federal or private funds



Commonwealth's Investment Program Should Be Complemented by Strategic Investments in the Island's Utilities That Support Long-Term Competitiveness

PREPA and PRASA's capital improvement programs are essential elements of the Commonwealth's long-term growth and competitiveness

- Independent public enterprises not included in the Fiscal Plan, such as PREPA and PRASA, will separately undertake significant capex programs (either directly or through P3s):
- PREPA plans to invest more than $4.6 billion over the next ten years to upgrade existing infrastructure and invest in strategic projects such as the Aguirre Offshore Gas Port ("AOGP")
- PREPA's capex includes projects for:
  - Maintenance capex (transmission & distribution, generation & others) – $2.7 billion
  - Investment capex
    - New Units /Repowering – $1.1 billion,
    - "AOGP" – ~$470 million
    - Investments in transmission & distribution – ~$300 million
- PRASA also contemplates finance approximately $3 billion in capex during the next ten-years
- PRASA's capex includes projects for:
  - Water/waste water infrastructure renewal and replacement – $1.4 billion
  - Environmental compliance – $540 million
  - Meter replacements, fleet renewal and technology – $500 million
  - Water loss control, quality assurance and others – $620 million

Note that the development of the AOGP, as well as other major capex projects, is subject to certain material risks, including obtainment of necessary permits and final approval by the Puerto Rico Energy Commission.

Public Private Partnerships Should Be Leveraged to Improve Operations, Boost Private Sector Participation and Fund Necessary Capital Spending

LMM International Airport and other P3 transactions demonstrate that public private partnerships are a viable model and an effective tool to develop necessary infrastructure, reduce operational costs and improve services. Potential P3 projects are included below. Due to uncertainty regarding timing, financial impact, and economic viability, the effect of these P3s is not incorporated herein, implying there could be additional upside to the Fiscal Plan

- Concession remaining toll roads, including PR-20, PR-52 and PR-66 in consultation with U.S. Department of Transportation
  - Improve, intra-Island connectivity, road and bridge quality and safety
  - Continuous investment in roads' maintenance would be mandatory as set forth in a Concession Agreement
  - Concessions would help transform HTA into a contract administrator
- Merge Public Building Authority and Office for the Improvements of Public Schools ("OMEP")
  - Transform PBA into a more efficient and effective public corporation and outsource services
  - Consider transferring the construction function to PRIFA to avoid duplicity of functions and gain efficiencies
- Concession maritime transport and bus system operations
  - Complete ongoing procurement process for the operation and maintenance of the public maritime transportation services and the metropolitan bus system
- Evaluate potential concessions for ports and airport operations or facilities, and work with the Federal Aviation Administration ("FAA") to consolidate underutilized or geographically unnecessary airports

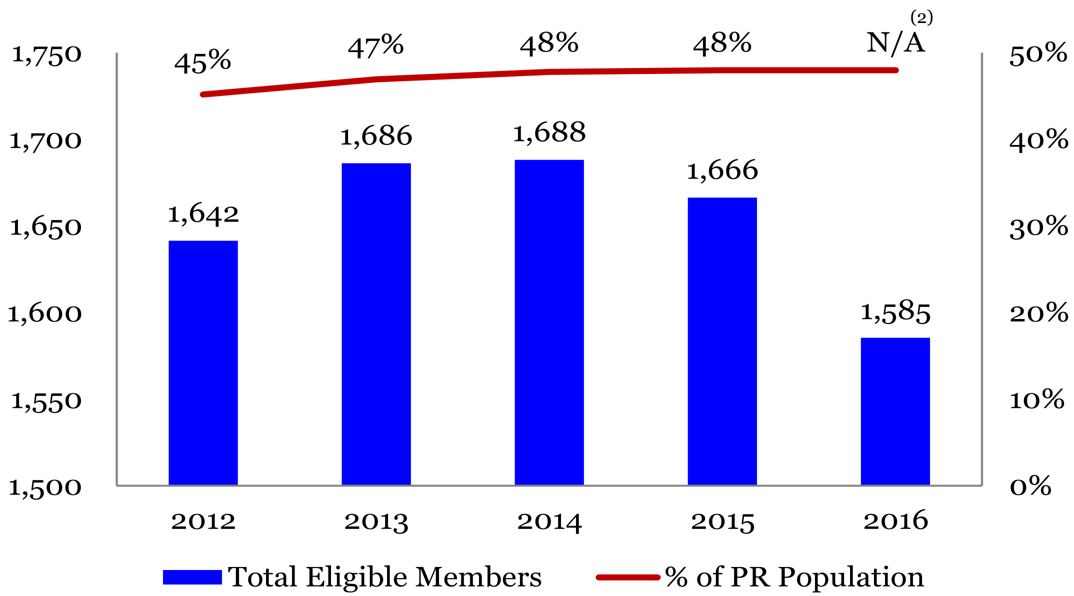
Core Principles of the Fiscal Plan

5. Protect Vulnerable Stakeholders

As a Result of Elevated Poverty Levels, Nearly Half the Population Is Dependent on the State Healthcare System

Approximately 1.6 million Puerto Ricans, or just under half of the island's population, are beneficiaries of the government's healthcare plan. Outmigration appears to have recently lowered the number of residents dependent on the plan, but has also drastically reduced the number of available physicians

Puerto Rico Population Insured under Public Health Programs(1) (millions)



"We had 14,000 physicians in 2006. Now we have 9,000 physicians … The salary in the United States is three to four times more" - Victor Ramos, president of the College of Physicians and Surgeons and Pediatricians(3)

According to a survey by the Puerto Rico Hospitals Association, 76% of hospitals have struggled to find and hire specialists(3)

(1) Puerto Rico Department of Health. https://medicaid.pr.gov/Statistics.aspx. Represents total eligible members under Medicaid, CHIP, Estatal, and Estatal (Otros). Total eligible members as of July 1 of each year shown.
(2) Puerto Rico population data for FY 2016 not yet available as of the date of this presentation.
(3) Hospitales, Publicacion Oficial de la Asociacion de Hospitales de Puerto Rico, "Dos Logros Historicos en el Trato de Medicare a Puerto Rico," 2016. http://hospitalespr.org/revista_pdf/revista_feb16.pdf.

The Healthcare System Suffers the Burden of Inequitable Treatment Under U.S. Health Care Laws and Is Struggling to Provide Adequate Care

Puerto Rico's Medicaid and other healthcare reimbursement amounts are capped annually even though no such cap is applicable to the states. Today the healthcare system is struggling to provide adequate care to Puerto Rico's residents and faces increasing challenges due to the Zika epidemic

According to a study conducted by the Catholic University of Puerto Rico on a sample of 600 people, many residents have experienced problems with **long wait times in primary care** facilities and hospital emergency rooms as well as with the **lack of physician availability**[1]

*"**Puerto Rico is in the midst of a Zika epidemic**. The virus is silently and rapidly spreading in Puerto Rico… this could lead to hundreds of infants being born with microcephaly or other birth defects in the coming year. We must do all we can to protect pregnant women from Zika and to prepare to care for infants born with microcephaly"*[2]

-Lyle R. Petersen, M.D.,
M.P.H, Incident Manager for CDC's Zika Response and Director,
Division of Vector-Borne Diseases

According to a survey by the Puerto Rico Hospitals Association, 57% of hospitals have shut down entire floors, 36% have fired employees and **66% have been forced to structure payment plans with suppliers**[3]

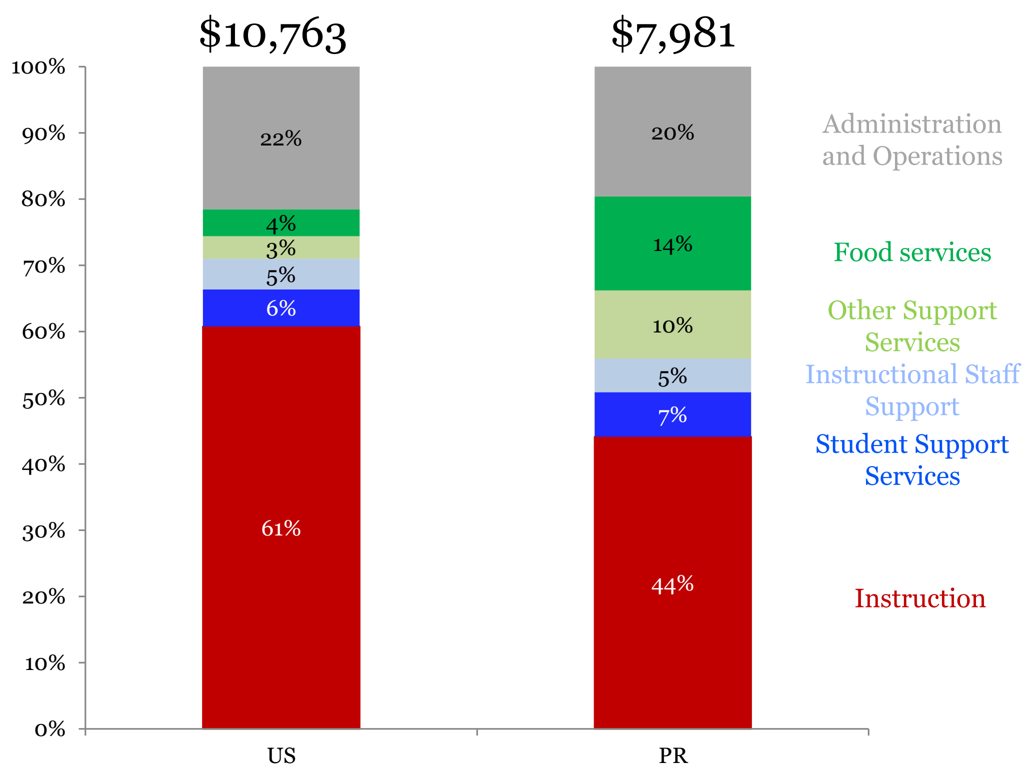
The Fiscal Plan that Puerto Rico will not cut spending to the already struggling healthcare system even if Affordable Care Act funds are not replaced when they are depleted in FY 2018. A lack of adequate healthcare not only will lead to a humanitarian crisis, but also provides an incentive for additional residents to leave the island, further harming the economy

(1) "La percepción de la calidad y la satisfacción con los servicios médicos hospitalarios en Puerto Rico," June 24, 2015. Pontifical Catholic University of Puerto Rico. https://gcu.universia.net/net/files/2015/6/24/hoja-de-datos-estudio-salud-final.pdf.
(2) "Zika infections increasing rapidly in Puerto Rico," July 29, 2016. Centers for Disease Control and Prevention. http://www.cdc.gov/media/releases/2016/p0729-zika-infections-puerto-rico.html.
(3) Hospitales, Publicacion Oficial de la Asociacion de Hospitales de Puerto Rico, "Dos Logros Historicos en el Trato de Medicare a Puerto Rico," 2016. http://hospitalespr.org/revista_pdf/revista_feb16.pdf.

Puerto Rico's Education System Struggles in Part Due to Low Per Pupil Expenditures and the Need to Direct Funds Towards Food and Support Services

In addition to spending less per student than in the U.S., Puerto Rico spends a greater percentage on non-instructional assistance, such as food and other support, due in part to the poverty of the student population. While the U.S. spends $6,543 on instruction per student, Puerto Rico is able to spend only $3,522 or less than 54% of that amount per student

Total Current Expenditure per Pupil per type of Expense (%)(1)



In a message to Speaker of the House Paul Ryan, R-Wisc., Puerto Rico Education Secretary Rafael Roman Melendez:

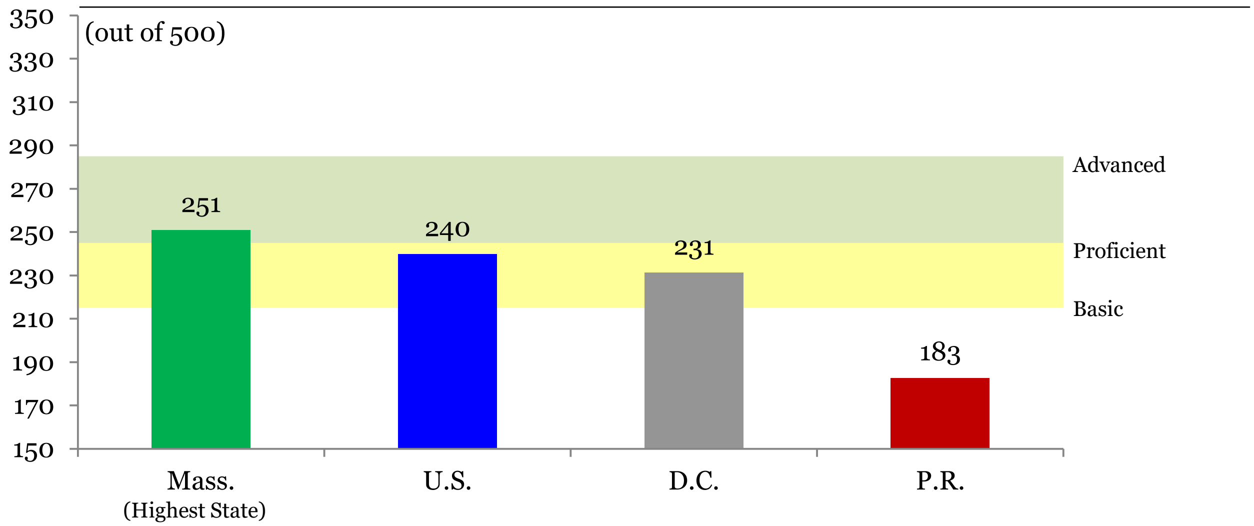
"The programs I oversee are in distress as there is simply insufficient cash to address the needs of 379,818 children that attend public schools in Puerto Rico"…"children are paying the consequences as a result of the congressional inaction, such as payments for classroom services, transportation, breakfast and lunch food supplies, "which are often the only meals some children consume during the day"(2)

(1) The National Center for Education Statistics' Revenue and Expenditures for Public Elementary and Secondary Education FY 2013.
(2) Latin Post article "Puerto Rico Education Secretary: Debt Crisis Rapidly Affecting Children's Health, Safety, Education Experience" published March 23, 2016.

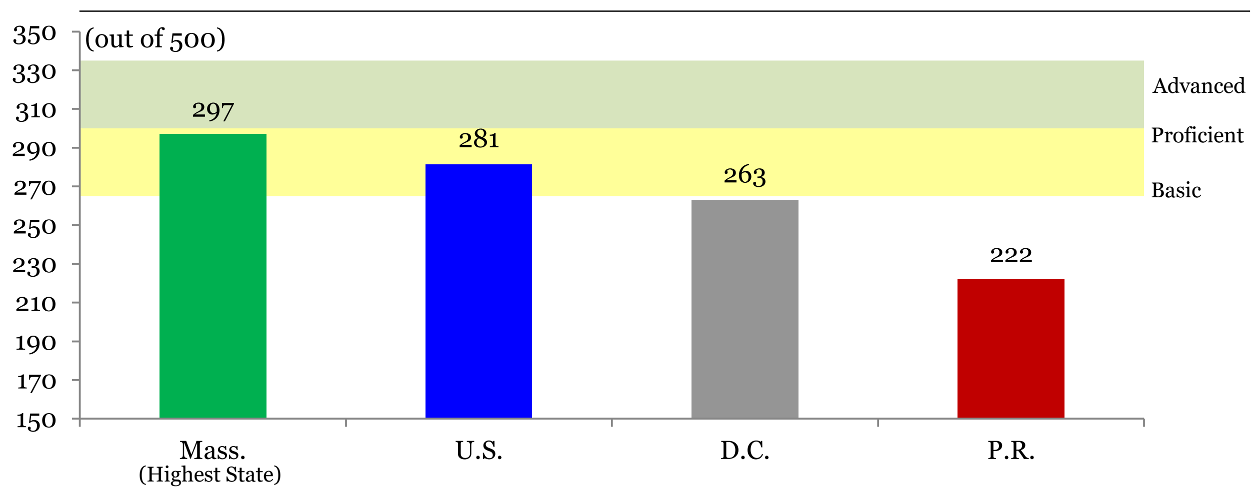
Lower Levels of Per Student Spending Have Contributed to Poor Educational Outcomes

Puerto Rico's students have shown significantly lower math assessment outcomes relative to the United States

2015 Fourth Grade Public School Student Math Assessment(1)



2015 Eighth Grade Public School Student Math Assessment(1)



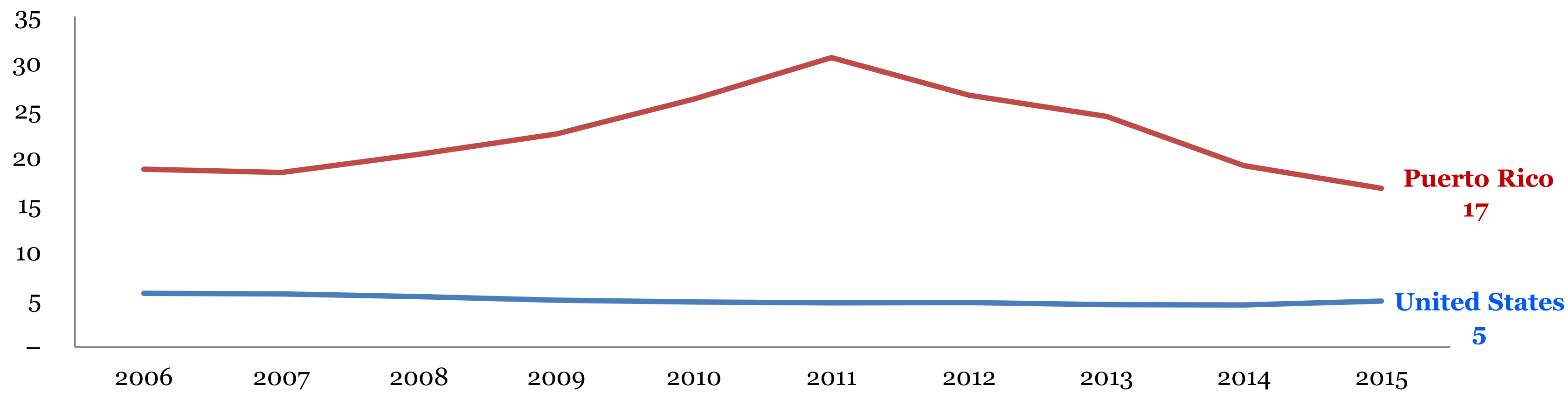
The Fiscal Plan recognizes that the Department of Education could deliver services in a more efficient manner that would result in cost savings. However, those savings must come from narrowly tailored policies that do not further harm the already struggling educational system, in particular given the reliance of impoverished students on non-instructional support spending. An educated populace is critical to retaining residents, boosting labor productivity and attracting private investment

(1) The Nation's Report Card's National Assessment of Educational Progress in Mathematics, 2015.

Puerto Rico Residents Are Confronting Higher Crime Levels Than Any State

Despite recent improvements, key crime statistics, such as homicide rates, remain higher than in any state

Annual Homicide Rate (per 100,000 people)(1)



"High unemployment rates, coupled with a strategic geographic location (mid-point between the United States and South America) make the islands attractive to illicit drug traffickers and money launderers"

-U.S. Department of Justice, Drug Enforcement Administration(2)

*"Due to enforcement successes by Dominican authorities and interdiction efforts by the U.S. Coast Guard, traffickers have been **forced to send multi-ton quantities of cocaine** from Venezuela and Colombia **directly into Puerto Rico**, bypassing the Dominican Republic. This resulted in…**increased smuggling movements directly to Puerto Rico**"*

-U.S. Department of Justice, Drug Enforcement Administration(2)

In the face of crime rates higher than the 50 states and police officer pay already well below the average of the 50 states, the Fiscal Plan does not include public safety spending cuts. Rising crime makes businesses less likely to invest in the island and makes individuals more likely to leave

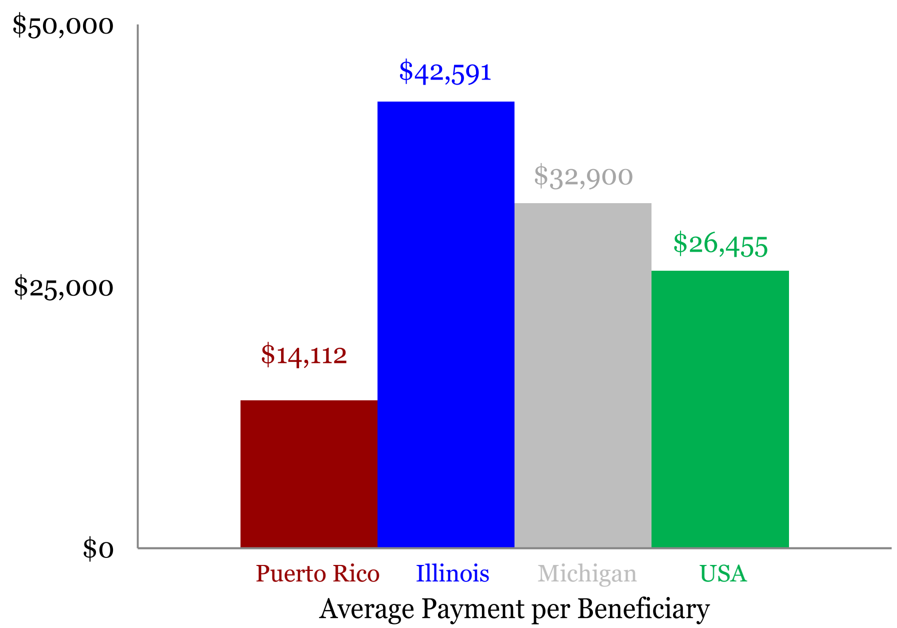
(1) Federal Bureau of Investigation, Uniform Crime Report.
(2) 2015 National Drug Threat Assessment Summary, November 4, 2015, U.S. Department of Justice, Drug Enforcement Administration. https://www.dea.gov/docs/2015%20NDTA%20Report.pdf.

The Elderly Face the Risk of Losing Their Already Meager Pension Payments

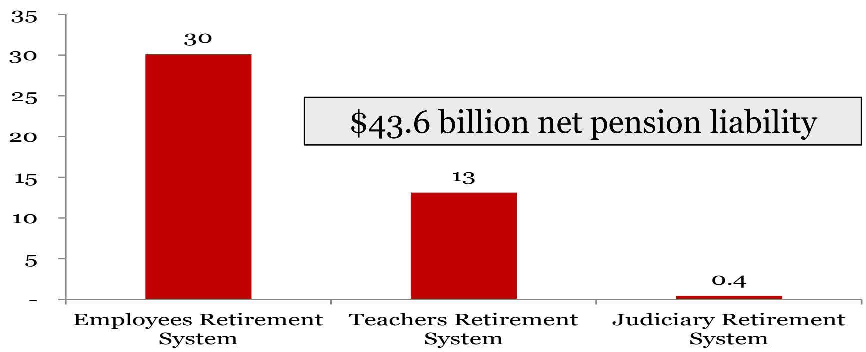
The ability of the government pension fund to honor benefits to elderly retirees (the levels of which are far below those in the states) is threatened by rapidly diminishing plan assets

- The large unfunded liability of the pension system threatens pensioners, who receive significantly less than the average pensioner in the 50 states. In fact, 30,000 pensioners receive only the minimum monthly pension payment of $500
- The Fiscal Plan includes a measures whereby the assets of the ERS Defined Benefit ("DB") and Defined Contribution ("DC") plans are separated prospectively, which protects future proprietary member contributions from potential insolvency and the unfunded liability growing rapidly in the future
  - While such a measure removes a source of financing for DB plan benefits and thus requires additional contributions to the system by the Commonwealth in the early years, this expense is offset in part by stretching the AUC payment period over a 30-year period (until 2043, as opposed to 20 years, or 2033, under current law)

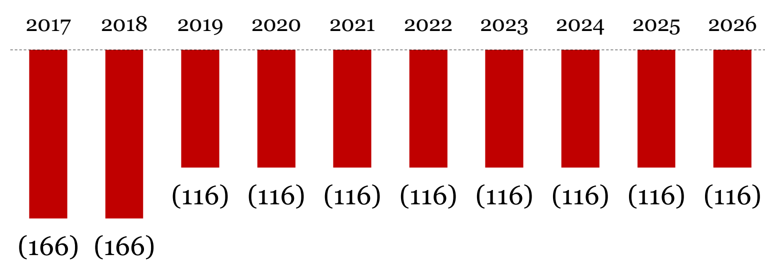
Average Pension Benefit Payments Per Beneficiary(1)



Actuarial Valuations of Puerto Rico's Retirement Systems(2) ($ billions)



Impact of Pension System Reform Measures vs. Base Projections(3) ($ mm)



(1) State Employee Retirement System of Illinois. Teachers Retirement System of Illinois. Retirement System of the City of Detroit. Michigan Annual Report. Annual Survey of Public Pensions.
(2) Actuarial estimates as of July 30, 2014. November 2015 Commonwealth Operating Report.
(3) Illustratively includes the reduction in the estimated portion of AUC as result of the exclusion of debt service, which is estimated to amount to approximately $80 million over the 10-year projection period.

Health, Public Safety, Education and Pension Costs Are Expected to Make Up Approximately 71% of 2017 General Fund Expenditures

The challenges facing the healthcare, education and pension systems, combined with the need to continue providing adequate funds for public safety, illustrate the difficulty in finding areas for potential cost reduction as these areas are expected to account for approximately 71% of the Commonwealth's budget

- Note that FY 2017 approved General Fund budget data is displayed below

General Fund 2017 Approved Budget	
$ thousands	**% of Total**
General Government	3.1%
Social Welfare	3.8%
Economic Development	1.3%
Infrastructure	2.7%
Health	15.7%
Public Safety	18.4%
Legislative Assembly	2.3%
Labor Affairs	0.2%
Education	28.4%
Culture and Recreation	0.9%
Legal	0.2%
Prosecutor's Office	5.0%
Election Process	0.4%
Debt	0.0%
Entity Deposit Funding	2.9%
Retirement System	8.8%
Budget and Emergency Fund	2.4%
Legal Responsibility Fund	1.3%
Utilities	1.9%
Debt	0.0%
TRANs	0.3%
Total	**100.0%**

Retirement systems account for 8.8% of all expenses in the 2017 approved General Fund Budget.

Note that other line items may fund payroll that results in *further* contributions to the retirement system not accounted for in the 71%

Source: Office of Management and Budget, Summary of General Fund Expenditures by Spending Area (FY 2017 Approved Budget). Note that debt service in the FY 2017 budget has been reduced.

Cooperative Credit Unions, with Significant Exposure to the Commonwealth's Debt, Must Be Protected in Any Restructuring

Puerto Rico's cooperative credit unions (the "Coops") hold deposits for roughly 1/3 of all Puerto Ricans and have investment portfolios that are approximately 75% invested in Commonwealth securities (with more than 46%(1) of the combined Coop government investment portfolio invested in GDB notes)

- Approximately 116 Coops function as retail outlets for financial services for about one million consumers that retain accounts on island. As of March 2016, total insured "shares" and deposits in the Coops amounted to approximately $8.2 billion
- Due to the recent defaults on GDB and GO debt, among others, the Coops are expected to sustain substantial losses in their investment portfolios and will likely suffer additional losses if, as expected, the Commonwealth ultimately executes a broader restructuring of its debt
- The consequences of an undercapitalized Coop system and the Coop failures that could result include:
  - Loss of deposits for roughly 1/3 of Puerto Ricans
  - Limited resources available to Coops to continue to lend and drive economic growth
  - Loss of jobs for employees of Coops that fail
  - Potential collapse of the Coop system as depositors move funds to FDIC-insured institutions

The Fiscal Plan must also protect credit union depositors, which are generally low-income, as well as the cooperative banking system more generally, conditioned on recapitalization plans and effective governance reforms. The cost of this protection is estimated at approximately $1.2 billion, which is not included in the Fiscal Plan, but must be accounted for in any debt restructuring

(1) Estimated system-wide holdings based on the G25 Group's holdings of Commonwealth securities.

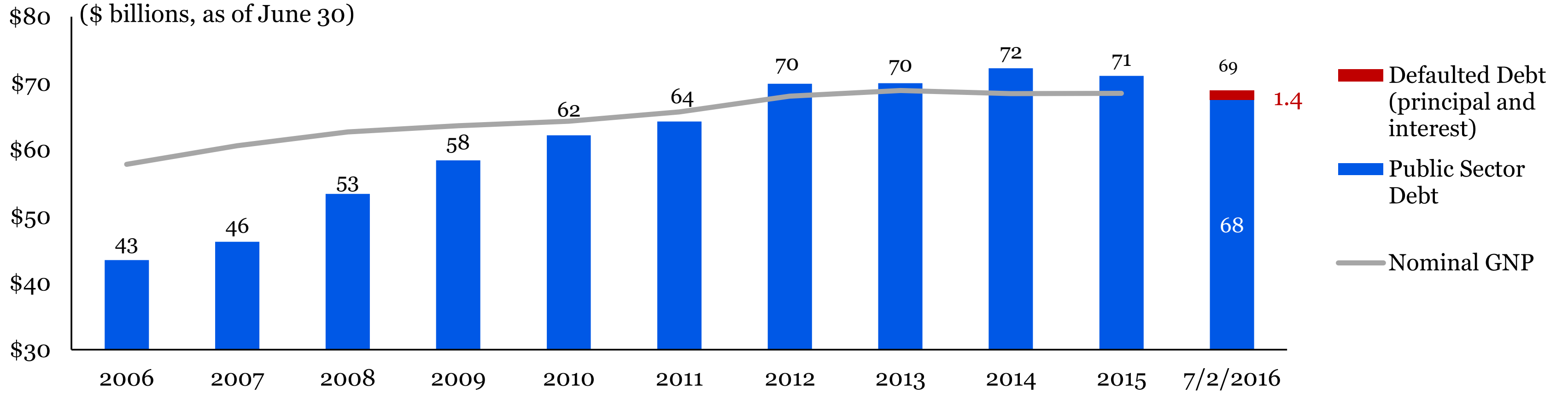
Core Principles of the Fiscal Plan

6. Create a Sustainable Debt Level That Allows for Growth

The Commonwealth Must Achieve a Sustainable Debt Stock

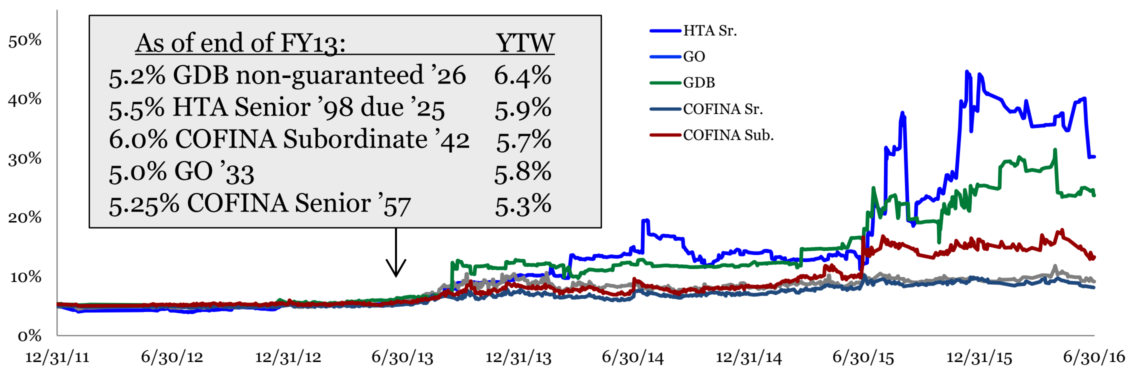
As the Commonwealth economy has contracted, its debt burden has grown by ~$26 billion since FY 2006, with the result that the aggregate debt stock now exceeds the entire GNP of Puerto Rico

Puerto Rico Public Sector Debt[(1)(2)]



Rising debt and declining real GNP contributed to ratings downgrades and increases in debt yields, meaning any refinancing had to be done at higher rates. Ultimately the debt burden became so high and the economic trend became so negative that the Commonwealth lost market access

Yield to Worst of Illustrative GO, GDB non-Guaranteed, HTA '98 Senior and COFINA Senior and Subordinate Bonds[(3)]



As of end of FY13:	YTW
5.2% GDB non-guaranteed '26	6.4%
5.5% HTA Senior '98 due '25	5.9%
6.0% COFINA Subordinate '42	5.7%
5.0% GO '33	5.8%
5.25% COFINA Senior '57	5.3%

As of 6/30/16:	YTW
5.2% GDB non-guaranteed '26	23.7%
5.5% HTA Senior '98 due '25	30.2%
5.0% GO '33	9.1%
6.0% COFINA Subordinate '42	13.3%
5.25% COFINA Senior '57	8.1%

PROMESA signed on 6/30/16

(1) Balances shown do not include the accreted value of capital appreciation bonds. Balances are on a Puerto Rico fiscal year basis (July to June) and sourced from Puerto Rico's Public Debt Monthly Report (Tiered Operational Management Information System). Values exclude GDB and MFA bond issuance and include loans from these entities to other Commonwealth entities. 2016 balance as of July 2, 2016 and calculated in a manner consistent with prior reporting per data provided by the Commonwealth. Default balance assumes no interest on unpaid amounts.
(2) Does not include unfunded pension liabilities. Based on valuation reports as of June 30, 2014, the Employees Retirement System, Teachers Retirement System and Judiciary Retirement System ("JRS") net pension liabilities were $30 billion, $13 billion and $442 million, respectively. See the May 7, 2015 Commonwealth of Puerto Rico Quarterly Report for more details.
(3) Data as provided by Bloomberg.

The Commonwealth Must Achieve a Sustainable Debt Stock (cont'd)

Without access to capital markets to fund its deficits and refinance its maturing debt, the Treasury Single Account ("TSA")(1) balance fell to approximately $244 million at the end of FY 2016, as compared to approximately $780 million(2) of direct General Obligation debt service due on July 1, 2016. **The Commonwealth thus defaulted on GO debt as well as debt of certain other issuers, an event creditors had been specifically warned may occur** (from the 2014 GO offering statement: *"If the Commonwealth's financial condition does not improve, it may need to implement emergency measures that may include a restructuring, moratorium or other actions affecting creditors' rights")*

Total Debt Service Payments Missed in FY 2016 (including July 1, 2016 payments)(3) ($millions)

	Amount Due	Amount Paid	Amount Not Paid	Dates of Missed Payments
GO	$1,125	$346	$779	July 1, 2016
GDB(4)	1,064	664	360	May 1, 2016
PBA	276	251	25	July 1, 2016
PFC	94	1	93	August 1, 2015 to July 1, 2016
PRIFA Rum	113	–	113	January 1, 2016 and July 1, 2016
HTA(5)	322	318	4	July 1, 2016
Total	**$2,995**	**$1,580**	**$1,375**	

The default occurred despite the Commonwealth's austerity measures and certain extraordinary liquidity measures, such as delaying payments to suppliers and critical infrastructure spending, all of which produced a *drag* on economic growth. **It is only through a return of economic growth that creditor recoveries can be maximized** while the Commonwealth can also continue to provide essential services to its residents. As such, a restructuring of outstanding debt to sustainable levels that allows the Commonwealth time to implement the fiscal and structural policies outlined herein and to invest in its economy is an essential principle of the Fiscal Plan

(1) The Treasury Single Account is the Commonwealth's operational bank account in which it deposits receipts from governmental funds except for blended component units (COFINA, PBA, PRIFA, etc.). Approximately $780 million represents $1,125 million of total principal and interest due as of July 1, 2016.
(2) Net of the escrowed amounts and capitalized interest amounts.
(3) Amounts not paid represents amounts not paid by the Commonwealth and has not been reduced by amounts paid by insurers, if any. Excludes PRASA Rural Development bonds (reached forbearance agreement ahead of its payment on July 1, 2016) and GO Notes (line of credit from GDB to Treasury whose debt service on July 1, 2016 was not paid).
(4) GDB unpaid debt service is net of $40 million of agreed upon maturity extension, which reduces the amount of unpaid debt service.
(5) Unpaid amounts for the HTA bonds reflect missed payment s on the 1998 Resolution Bonds, Series 1998 Subordinate Bonds.

Debt of Entities Included in the Fiscal Plan

Per the Oversight Board, "the Commonwealth's Fiscal Plan shall include all agencies, departments, offices, administrations, programs and functions that are part of the central government" as well as specifically enumerated bond issuer entities, as outlined below

- Inclusive of missed interest payments and accrued interest on capital appreciation bonds ("CABs", *e.g.*, zero coupon bonds), these entities have approximately $50 billion of bonds and third-party loans outstanding (i.e., excluding GDB or other intergovernmental loans[1])

Summary of Debt Outstanding for Plan and Non-Plan Entities[2] ($ millions)

In addition to these debt issuers, all of the Commonwealth's retirement systems are also incorporated into the plan

	Bond Principal[2]	CAB Accretion[3]	Missed Bond Interest[4]	Private Loans[5]	Total Bonds and Private Loans	*Memo: Loans from GDB/MFA/ & CW Entities[6]*	*Memo: Total Entity Indebtedness*
Debt Issuers Included in the Fiscal Plan							
Issuers Specifically Identified By the Board							
1. GO	$12,470	$49	$353	$24	$12,896	*$169*	*$13,066*
2. COFINA	15,213	2,082	–	–	17,294	*–*	*17,294*
3. HTA[7]	4,253	63	1	–	4,317	*1,734*	*6,051*
4. PBA	3,995	10	–	–	4,005	*182*	*4,187*
5. GDB[8]	3,811	–	–	204	4,015	*–*	*4,015*
6. ERS	2,948	193	–	–	3,141	*–*	*3,141*
7. PRIFA[9]	1,926	160	72	–	2,158	*49*	*2,207*
8. PFC	1,091	–	57	–	1,147	*–*	*1,147*
9. UPR[10]	496	–	–	0	496	*76*	*573*
10. PRCCDA	386	–	–	–	386	*145*	*532*
11. PRIDCO	154	5	–	–	159	*78*	*237*
Other Debt Issuers Primarily Supported by Central Government Revenues							
12. AMA	–	–	–	28	28	*–*	*28*
13. Other Central Gov't Entities[11]	226	–	–	16	242	*3,521*	*3,763*
Total Entities in Plan	**$46,969**	**$2,561**	**$483**	**$272**	**$50,286**		
Debt Issuers Excluded From the Fiscal Plan							
Debt Issuers Not Incl. in the Plan							
1. PREPA[12]	8,259	–	–	696	8,955	*37*	*8,992*
2. PRASA[13]	3,948	28	–	4	3,981	*590*	*4,571*
3. Children's Trust	1,151	288	–	–	1,439	*–*	*1,439*
4. HFA	496	–	–	–	496	*85*	*581*
5. PRIICO	–	–	–	86	86	*–*	*86*
6. Municipality Related Debt[14]	632	–	–	1,200	1,832	*2,711*	*4,542*
Total Entities Outside of Plan	**$14,485**	**$316**	**–**	**$1,986**	**$16,787**		
Total	**$61,454**	**$2,877**	**$483**	**$2,259**	**$67,073**		

Memo: Bridge to Public Sector Debt	
Less: CAB Accretion	(2,877)
Less: Missed Bond Interest	(483)
Less: GDB Bonds[15]	(3,766)
Less: MFA Bonds	(618)
Plus: Loans From GDB/MFA/Other CW Entities	9,379
Public Sector Debt	**$68,707**

Note: All debt balances shown are preliminary, unaudited estimates based on bonded debt outstanding as of July 2, 2016 and loan balances of June 30, 2016.
(1) Note that balances also exclude MFA loans (though there are no MFA loans to entities included in the Fiscal Plan). Also note that in the Fiscal Plan bonds held by GDB are eliminated in consolidation.
(2) See the appendix for footnotes.

Debt of Entities Included in the Fiscal Plan All Rely, Directly or Indirectly, on the Commonwealth's Taxing Authority

All of the entities included in the Fiscal Plan rely on the Commonwealth central government's taxing authority, either directly from tax revenues allocated by law or indirectly from appropriations included in the Commonwealth's General Fund (the Commonwealth's primary operational fund)

- Certain entities that have issued debt backed by allocated tax revenues have revenues that are either explicitly "available revenues" that may be diverted to pay Commonwealth general obligations (HTA, PRCCDA, AMA, PRIFA) or have been alleged in litigation by general obligation debt holders to be an "available revenue" (COFINA)

Central Government Collected Revenues

General Fund Directly Pays Debt Service

General Obligation Debt

Reliant on General Fund Appropriations

Payable from Allocated Tax Revenues

COFINA
HTA
PRIFA
PRCCDA
AMA

PBA	▪ 93%[1] of revenues from the lease payments budgeted in the GF (also fully guaranteed by the CW)
GDB	▪ Appropriations made to pay loans owed by CW entities to GDB, which GDB uses to pay its own debt
ERS	▪ The Commonwealth is typically responsible for approximately 79%[2] of the total AUC contributions to ERS (of which the central government contributes approximately 62%) and nearly all of the contributions to TRS and JRS
PFC	▪ Directly reliant on appropriations to pay debt service; does not have any other revenues
UPR	▪ Receives ~74%[3] of annual revenues from General Fund appropriations and allocated tax revenues
PRIDCO[4]	▪ Receives withholding and rum taxes; rental revenue dependent on ability to grant tax subsidies
Other	▪ Consists of certain discretely presented non-major component units, including entities such as ADEA that receive transfers from the central government

(1) Source: Conway MacKenzie PBA 5-Year Projections dated July 20, 2015. Percentage shown (93%) represents FY 2016 lease payments made by agencies in the General Fund (i.e., excluding agencies outside the General Fund and municipalities).
(2) Percentages shown per ERS and includes the AUC contributions for component units that are included in the Fiscal Plan and does not include municipalities. (67% to 70%) represent special law, AUC, and employer contributions from the General Fund as a percentage of total contributions, excluding investment income.
(3) Source: Conway MacKenzie UPR projection included in FEGP dated January 18, 2016. Percentage shown (74%) represents FY 2016 Commonwealth appropriations and dedicated tax revenues including collections from slot machines (excluding federal transfers and Pell Grant funding) as a percentage of total cash inflows (excluding debt proceeds which are non-recurring). Excluding slot revenues, UPR receives 70% of revenue from General Fund appropriations.
(4) While PRIDCO receives appropriations for portions of the non-resident withholdings tax and rum excise taxes, such revenues are not specifically dedicated to the payment of debt service. However, PRIDCO's rent revenues are attributable to its ability to provide tax subsidies to private sector companies.

There is Significant Cross-Ownership of Commonwealth Debt

In addition to the reliance of many Commonwealth entities on a single tax base, it is also important to note that there are many holders that individually own bonds of multiple Commonwealth entities

- Puerto Rico has hired Bondholder Communications Group ("BondCom") to develop a registry of ultimate beneficial owners ("UBOs") of the Commonwealth's bonds; to date over 350,000 UBOs have been identified, representing 68% of the Commonwealth's total bonded debt
- Shown below is a select set of large mutual funds that own significant amounts of bonds of numerous Commonwealth issuers, illustrating the large number of crossholdings

Estimated Holdings by Credit of Certain Large Funds(1) ($ millions)

	Holdings ($)(1)			
Entity	Large Mutual Fund Holder #1	Large Mutual Fund Holder #2	Large Mutual Fund Holder #3	Total
Fiscal Plan Entities				
GO	$516	$1,045	$231	$1,793
GDB	–	< 1	–	0
PBA	172	702	18	891
PFC	134	417	–	551
COFINA	1,371	2,060	882	4,313
PRIFA	9	411	6	427
UPR(2)	–	196	–	196
PRCCDA	–	1	–	1
PRIDCO	–	–	–	–
HTA	–	392	27	418
ERS	2	–	–	2
MFA	–	59	–	59
Fiscal Plan Entities Total	**$2,205**	**$5,283**	**$1,164**	**$8,652**
PREPA	803	969	178	1,949
PRASA	–	420	216	636
CTF	61	1,068	–	1,129
HFA	6	< 1	–	6
AFICA - Guaynabo	–	6	–	6
Entities Excl. From Fiscal Plan Total	**$870**	**$2,463**	**$394**	**$3,726**
Total	**$3,075**	**$7,746**	**$1,557**	**$12,378**

BondCom's work is ongoing. In addition to the three large mutual funds shown here, over 7,300 other retail and institutional investors have been identified that own bonds issued by five or more Puerto Rican issuers. In aggregate, these cross-credit investors are estimated to hold over $12.7 billion of debt issued by various Puerto Rico issuers (in addition to the holdings of the mutual funds shown)

(1) Information shown based on data provided by Bondholder Communications Group ("BondCom"). Balances as of September 28, 2016 and include CAB accretion as of June 30, 2016. Bondcom is in the midst of updating the registry to October 2016, and it is also expanding the registry's coverage beyond the 68% portion included currently. As a result, these amounts are subject to change. Note that some of these holdings may be insured.
(2) Includes bonds issued by AFICA – Desarrollos Universitarios, a component unit of the University of Puerto Rico.

Insurance Providers Also Have Exposure to Multiple Issuers

In addition to the cross-holdings of individual holders, certain monoline insurers also have significant exposure to multiple entities

- Monolines insuring Commonwealth debt include:
  - AMBAC Assurance Corporation ("AMBAC")
  - Assured Guaranty ("Assured")
  - Financial Guaranty Insurance Company ("FGIC")
  - MBIA Inc./National Public Finance Guarantee Corporation ("MBIA")/("National")
  - Syncora Holdings ("Syncora")
- Note that the total insured amounts as shown below are as listed in the most recently available insurer financial statements. Reporting methodology may vary materially across insurer

Estimated Select Insurer Exposure Summary ($ millions)

Entity	Assured(1)	MBIA(2)	FGIC(3)	AMBAC(4)	Syncora(5)
Commonwealth (GO)	$1,615	$795	$279	$56	$218
HTA	1,279	715	437	472	7
COFINA	270	684	–	805	–
PRIFA	18	–	349	503	–
PBA	188	190	8	191	–
PRCCDA	164	–	97	137	–
UPR	1	89	–	–	–
PRIDCO	–	7	–	–	–
Total Exposure to Fiscal Plan Entities	**$3,535**	**$2,480**	**$1,169**	**$2,163**	**$225**
PREPA	744	1,354	–	–	241
PRASA	388	–	–	–	–
MFA	387	–	–	–	–
All Other	–	26	–	–	29
Total Exposure	**$5,054**	**$3,860**	**$1,169**	**$2,163**	**$494**

Note: Insurer exposure shown herein based on 2Q 2016 company filings and/or investor presentations. Excludes CIFGNA, which is pending a merger with Assured as of March 31, 2016.
(1) Values represent net par outstanding. Includes CABs that reflect gross par amount at time the policy was issued.
(2) Values represent gross par outstanding.
(3) Values represent net par in force.
(4) Data derived from Ambac Financial Group document titled "Puerto Rico Exposure Second Quarter 2016." Amounts shown based on a net par basis (net of reinsurance), including CABs which are reported at the part amount at the time of issuance of the insurance policy.
(5) Data derived from Syncora Guarantee Second Quarter 2016 Highlights Investor Presentation dated September 21, 2016. Includes reinsurance and bonds purchased for remediation (which are reported at GAAP carrying value for the insured bonds). Excludes total interest outstanding of $104.7 million as of June 30, 2016.

Puerto Rico Residents are Estimated to Hold at Least $6 Billion of Commonwealth Bonds and Have Additional Coops Exposure

While due diligence into the exact amount of local holdings remains ongoing, based on BondCom's work to date it is believed that a sizeable portion of Commonwealth debt is held on-Island, with holdings across the Commonwealth credits, but particularly concentrated in the bonds that are not triple-tax exempt issued by COFINA, ERS, GDB, and PFC

Current Estimate of Local Holdings as Identified by Bondcom[1]

($ millions)

Issuer	Local Coop Holdings	Local Non-Coop Holdings	Total Local Holdings
GO	92	307	399
COFINA	181	2,642	2,823
HTA	3	54	57
PBA	39	242	281
GDB	369	986	1,356
ERS	4	1,224	1,228
PRIFA[2]	4	16	19
PFC	63	204	267
UPR[3]	–	2	2
CCDA	< 1	11	11
PRIDCO	15	72	86
PREPA	55	305	360
PRASA	52	216	268
CTF	–	< 1	< 1
MFA	–	3	3
HFA	< 1	91	91
Total	**$876**	**$6,376**	**$7,252**

Market information indicates that the Coop systems have exposure of approximately $1.1 billion of Puerto Rico debt; the numbers above represent only those CUSIPs identified by BondCom to date

In addition to the Coops, it is currently estimated that at least $6 billion of Commonwealth debt is held locally, illustrating the need to promote economic growth so as to maximize recovery for these creditors. A restructuring that provides minimal recovery to local bondholders is effectively an austerity measure

(1) Information shown above based on data provided by Bondholder Communications Group ("BondCom"). Balances as of September 28, 2016 and include CAB accretion as of June 30, 2016. BondCom is currently working to update the bondwoner registrey to October 2016.
(2) Excludes PRIFA BANs.
(3) Include bonds issued by AFICA – Desarrollos Universitarios, a component unit of the University of Puerto Rico.

In Light of the Characteristics of the Commonwealth's Outstanding Debt, Certain Key Principles Must Guide Any Restructuring Offer

While including a specific debt restructuring proposal as part of the Fiscal Plan would be premature at this time, there are a number of key principles that are necessary as part of any debt restructuring proposal that aims for a sustainable level of debt service

- PROMESA envisions an iterative process with the Oversight Board, specifically requiring that the final Fiscal Plan include the recommendations of the Board and providing explicitly for a process for the Commonwealth to submit multiple versions of the Fiscal Plan
- Without having received the recommendations of the Oversight Board, it would be premature to propose a specific debt restructuring proposal at this time

Principles	Considerations

Holistic Solution	▪ A holistic solution is required to produce a sustainable debt level given the general reliance on the Commonwealth's taxing authority for debt service and the fact that single bondholders and insurers have exposure to multiple credits
	▪ Actions by creditors to date have already proven the need for a holistic solution
	    ▪ GO bondholders have instituted litigation alleging that the COFINA revenues are "available revenues" to pay the GO and Commonwealth guaranteed indebtedness (*e.g.*, PBA)
	    ▪ Insurers have instituted litigation challenging the "clawback" of certain revenues, which in turn could influence the available revenues to pay the GO holders and Commonwealth guaranteed holders
	    ▪ Large mutual funds have challenged the efficacy and rationale of a public restructuring proposal made by holders of COFINA senior bonds
	▪ A holistic solution is essential in order to permanently solve these intercreditor disputes so that the Commonwealth is not bogged down in years of litigation that delay its ability to regain market access
	▪ To the extent possible, a debt restructuring should simplify the Commonwealth capital structure and rely on a restructuring currency that is both free from embedded intercreditor conflicts and available to all creditors

In Light of the Characteristics of the Commonwealth's Outstanding Debt, Certain Key Principles Must Guide Any Restructuring Offer (cont'd)

Principles	Considerations
Time and Capacity to Invest in the Economy and Implement Plan	▪ The Commonwealth must be given a breathing space to invest in its economy and implement the reforms outlined previously so as to spur economic growth ▪ The early years of the Fiscal Plan are especially critical so as to stem the tide of outmigration from the island and make the island attractive for private investment ▪ Consequently, the debt service levels set should have lower or minimal *cash* debt service during the early years of the Fiscal Plan ("payment-in-kind" or other such non-cash interest elements could be considered to protect creditors)
Reasonable Maximum Annual Mandatory Debt Service	▪ The final debt service level cannot exceed the projected surplus before debt service in the final Fiscal Plan ▪ Reasonable growth projections must be used for purposes of setting the offer size, though contingent payment amounts tied to growth levels in excess of expectations could also be used to make creditors partners in trying to promote economic growth ▪ Debt service levels should be based on objective criteria consistent with those used by credit rating agencies so as to facilitate, over time, a return to an investment grade credit rating
Creditors Become Partners in Growth	▪ In return for being given breathing space to implement the Plan, creditors should share in the potential upside if the benefits of the plan are realized or exceeded ▪ A contingent value right or growth bond that pays creditors in the event growth targets set in the plan are exceeded should therefore be considered as part of any debt restructuring
Consideration Given to the Impact on Local Holders	▪ Given significant local holdings of Commonwealth debt, consideration must be given to the impact any restructuring proposal will have on the economy ▪ In particular, the coops must be given sufficient recovery, either through new debt or otherwise, to ensure that they are adequately capitalized
Restrictions on New Indebtedness	▪ The final restructuring offer must also include restrictions on how new indebtedness may be issued ▪ Such restrictions must take into account *all* Commonwealth debt supported by tax revenues so that the debt service burden on the Commonwealth economy as a whole is never again allowed to grow to extreme levels and the Commonwealth can only issue debt commensurate with its ability to pay

Core Principles of the Fiscal Plan

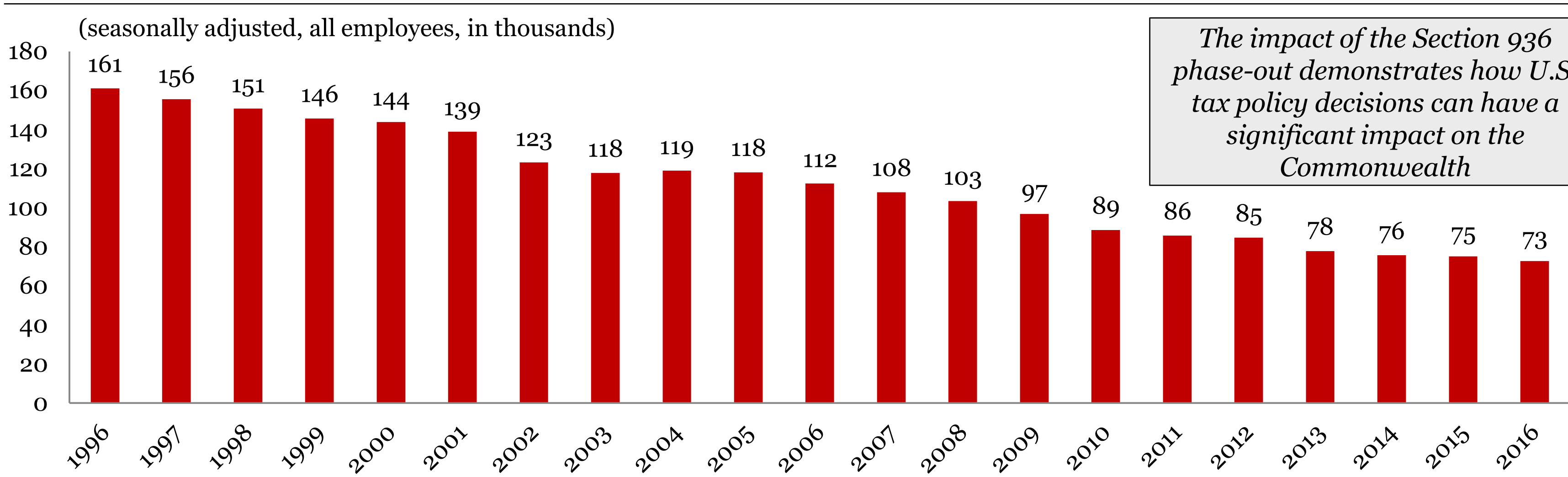
7. Partner with the Federal Government to Generate Growth

Puerto Rico's Economic Decline was Precipitated in Part by U.S. Policy Decisions in the Mid-90s

The phase out of Section 936 of the U.S. tax code combined with expanded U.S. free trade agreements may have contributed to the disappearance of over half of Puerto Rico manufacturing jobs

- As a result of Section 936's tax benefits, the manufacturing sector in Puerto Rico had grown significantly, in particular for firms, such as pharmaceutical companies, that could transfer patents to Puerto Rico and then source income generated by those patents to Puerto Rico in order to receive tax credits under Section 936
  - Manufacturing sector growth took place in spite of Puerto Rico's comparatively higher labor costs relative to other, non-U.S. mainland manufacturing centers due to the applicability of U.S. minimum wage laws
- In 1996, the U.S. enacted legislation to phase out Section 936 over a ten-year period, removing a key competitive advantage Puerto Rico had in attracting business and foreign investment to the island
- Manufacturing jobs immediately began to decline following the Section 936 phase out
- Additionally, NAFTA which expanded the right to provide duty free imports to the U.S. (a right that had already been enjoyed by Puerto Rico), had been signed two years prior, potentially contributing to the loss

Decline in Puerto Rico Manufacturing Payrolls(1)



The impact of the Section 936 phase-out demonstrates how U.S. tax policy decisions can have a significant impact on the Commonwealth

(1) Bureau of Labor Statistics State and Area Employment, Hours, and Earnings - January totals.

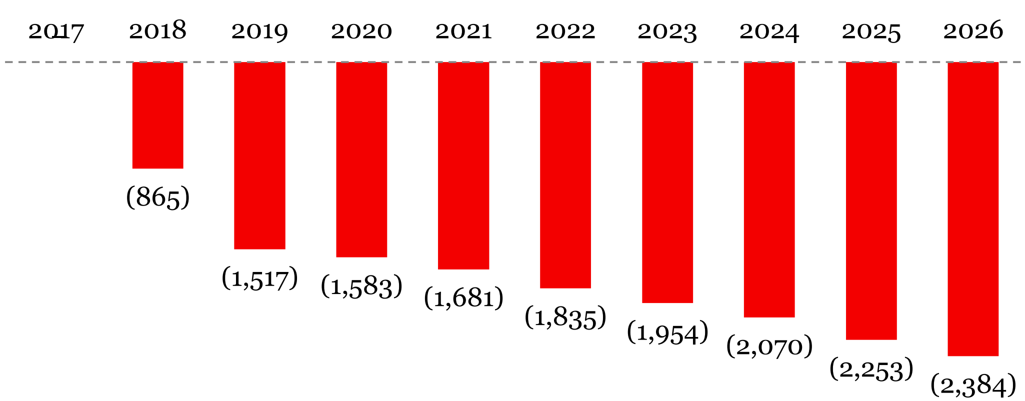
Today, Puerto Rico Faces a Fiscal Cliff That Federal Government Action Could Help Resolve and Ensure a Virtuous Cycle

A replacement for ACA funding (potentially through providing Puerto Rico with Medicare/Medicaid funding equivalent to that of the 50 states) is a critical element of stabilizing Puerto Rico's fiscal position

- ACA funds provided to Puerto Rico are currently projected to be exhausted by FY 2018. After the expiration of those funds, the Commonwealth would still receive healthcare funding from the U.S. Federal Government, but at a much lower rate than the 50 states.

- In addition, the Commonwealth's Medicare Advantage match is lower than 41 states and the Commonwealth is subject to a federal spending cap on Medicaid dollars of approximately $300 million (excluding $150 million for the Children's Health Insurance Program ("CHIP")) - there is no cap for U.S. states

Impact of ACA Funding Loss[1] ($ millions)



(1) ASES projections for FY 2017 through FY 2026.

Additional Federal Government Action Would Help Spur Growth

A replacement for ACA funding merely maintains the current level of support the U.S. Government provides Puerto Rico. Additional actions by the U.S. government, such as those outlined below, could spur new growth on the island

Action Type	Request
Equitable Treatment Under U.S. Healthcare Law	▪ Include PR in the Medicaid/Medicare disproportionate share hospital ("DSH") program and ensure PR is treated fairly under the Medicare DSH program Medicaid ▪ Remove statutory limits on Medicaid funding. In FY 2018, Medicaid funding granted under the Affordable Care Act will be depleted Avert incoming fiscal cliff in ACA – Medicaid funding level is capped at less than $350 million and the Federal Medical Assistance Percentage ("FMAP") rate set at 55%, which equals an effective rate of 15% to 20%, whereas according to Puerto Rico's income levels the FMAP should be set at 83% Medicare ▪ Automatically enroll in Medicare Part B individuals enrolled in Medicare Part A, and develop a mechanism to reduce or eliminate penalties to seniors that enrolled late in Part B ▪ Provide Puerto Rico doctors fair treatment under the Practice Expense, Physician Work, and Malpractice Geographic Practice Cost Index ("GPCI") payment formula ▪ Ensure adequate PMPM payments to Medicare Advantage plans in Puerto Rico ▪ Exempt Puerto Rico health insurers from the Health Insurance Providers Fee ▪ Authorize Puerto Rico to participate in Medicare Part D Low-Income Subsidy ("LIS") program
Stimulate Employment and Labor Participation	▪ Pro employment requests with respect to NAP and public housing programs ▪ Extend the EITC, the Child Tax Credit and Supplemental Security Income to Puerto Rico residents to increase labor participation in the formal economy and help stimulate economic growth

Additional Federal Government Action Would Help Spur Growth (cont'd)

Action Type	Request

Implement Pro-Growth Corporate Tax Regime	▪ Provide Puerto Rico with a tax treatment that encourages investment and job creation, such as modifications to Section 245a of the U.S. Internal Revenue Code and extension of Section 1031
	    ▪ The 245a proposal would incentivize companies that invest in Puerto Rico to repatriate income back to the mainland U.S. by reducing the cost of repatriation
	    ▪ Importantly, the proposal would also reduce taxes paid over other foreign tax jurisdictions if Congress enacts broader international tax reform. This provides a critical incentive to keep jobs in Puerto Rico instead of companies moving overseas
	    ▪ To reduce the fiscal impact on the U.S. Treasury and ensure the proposal does not allow companies to manipulate it to reduce taxes on income earned outside of Puerto Rico, the proposal will establish limits on the use of foreign tax credits
	▪ Maintain Act 154 excise tax creditability during a transition period in order not to impact the multinationals on the island nor the Commonwealth's revenue base

Assistance in P3 Efforts and Infrastructure Spending	▪ Executive approval or Congressional authorization to sell accumulated Federal Highway toll credits ▪ DOE financing for the Aguirre Offshore Gas Port and finalize remaining federal permits related to the project ▪ Maximize use of financing opportunities available through the USDA Rural Utilities Service ▪ Provide funding to the U.S. Department of Energy to complete the electric rates study authorized by the Consolidated and Further Appropriations Act of 2015
Reduce Operating Costs and Improve Fiscal Decision-Making	▪ Exemption from Jones Act application to reduce transportation costs and increase competitiveness ▪ Provide appropriate funding to include Puerto Rico in the 2017 U.S. Census of Governments, the National Agricultural Statistical Service surveys, and the Current Population Survey; have OMB and other appropriate federal agencies conduct a comprehensive federal review of Puerto Rico's exclusion from other critical national datasets, such as the Job Opening Labor Turnover Survey, the American Time Use Survey, and the National Health Interview Survey ▪ Coordinate technical assistance and education efforts by BEA, Census Bureau, BLS, EDA, MBDA, SBA, and other federal agencies on processes to improve Puerto Rico's statistical forecasting capacity and federal grant opportunities ▪ Encourage World Economic Forum to include Puerto Rico in its Global Competitiveness Report

Fiscal Plan Projections

Overview of the Fiscal Plan Projection Approach(1)

Given that the entities included in the Fiscal Plan generally mirror those that were included in the FEGP developed by the Working Group for the Fiscal and Economic Recovery of Puerto Rico (the "Working Group"), the Fiscal Plan adopts a similar approach to the FEGP

- **Projections for revenues and expenses are developed on a *consolidated* basis given the need for a holistic solution**
  - This implies that certain intragovernmental transactions are effectively eliminated from the projections, as they have no impact on the Commonwealth's ultimate fiscal position; for example, a loan payment from HTA to the GDB would simply move assets from one entity included in the Plan to another entity included in the Plan without changing the Commonwealth's overall financing needs, and is therefore excluded
- **The fiscal projections are presented in two parts: first, the "Base Projections," followed by projections that reflect the impact of measures consistent with the principles previously outlined**
  - The Base Projections illustrate the financing needs of the Commonwealth in the status quo and assume that current laws remain unchanged
    - Illustratively, the Base Projections include all contractual debt service owed during the period of the projections, which demonstrates the shortfall the Commonwealth would have to fill with measures and/or new financing if it were to pay its existing debt in full
  - The Base Projections are then adjusted to account for the impact of the measures associated with the principles outlined previously insofar as such measures are in the Commonwealth's control to implement
    - The Measures include the projected benefits of improved growth in the Commonwealth economy
    - Illustratively all debt service is removed in this scenario to show what *could* be paid to creditors; a specific allocation of any surplus between credits has not been made at this time, pending further discussions with the Oversight Board
- **U.S. Federal Government action, while a critical component of returning the island to growth, is not assumed under either the "Base Projections" or in the measures**
  - For reference, however, the potential benefits of certain U.S. federal government actions, in particular continued programmatic support for the Commonwealth's healthcare system at current levels are shown for illustrative purposes in the following section

(1) The economic forecasts presented rely on the existing fiscal reporting systems in the Commonwealth of Puerto Rico and reflect existing economic uncertainty as well as any limitations stemming from reporting systems, the data extract transform and load processes, as well as the inherent uncertainty of developing forward projections in this context. Although DevTech Systems takes all possible care to ensure the accuracy of the information reported, no warranty can be accepted regarding the correctness, precision, timeliness, reliability and completeness of the content of this information. DevTech has obtained the information provided from sources that should be considered reliable, but cannot guarantee its accuracy or completeness. The information provided is purely of an indicative nature and is subject to change without notice at any time. DevTech does not accept any liability arising from any information provided or for the consequences of any actions taken in reliance on of this projection.

Key Macroeconomic Assumptions Used in the Base Projection

The following provides an overview of the key macroeconomic assumptions used in the development of the Commonwealth's Base Projections

- The growth and inflation assumptions used in the Base Projections were developed by Dr. Rafael Romeu, a former IMF economist hired by AAFAF who is the President and CEO of DevTech Systems, Inc. ("DevTech"), an international economic consulting firm founded in 1984 that has provided advisory services in over 100 countries
- ***Understanding the "Base" Projections:***
- The Base Projection is intended to reflect a starting point for calculating the tradeoffs of potential future policies. With limitations on certain financial data and a lack of knowledge of the outcome of critical future decisions of not only Puerto Rico, but also the Oversight Board and the U.S. Government, the Base Projections are the best available starting point for analysis of future policy changes
- The Base Projection serves only as a tool for costing measures and informing policy tradeoffs for the Commonwealth. The Base Projection *is not* a viable economic scenario because it does not incorporate any package of measures, policies and/or financing that would resolve the inconsistency of persistent deficits combined with a lack of market access
- ***Methodology***:
- Against this backdrop, DevTech developed a set of growth and inflation projections for the Base Projection using factors exogenous to Puerto Rico's fiscal position, as summarized below
  - **Growth**[1] – The forecast of real growth is a function of the following variables:
    - U.S. real GDP variables published in the International Monetary Fund (IMF)'s Spring 2016 World Economic Outlook (WEO)
    - Working age population forecasts for Puerto Rico[2]
    - Food and fuel price indices per the IMF
  - **Inflation** – modeling inflation follows a simple Phillips curve specification, where inflation is a function of:
    - Food and fuel price indices, reflecting pass-through from international prices
    - The output gap (in lieu of unemployment) and past inflation

(1) The departure point for understanding DevTech's approach to projecting real growth was identifying macroeconomic drivers of growth that are not necessarily endogenous to economic policies.
(2) Population is a critical determinant for the growth of any economy, and given PR status as a U.S. territory, the ability to migrate into or away from the island makes this variable an even greater anchor on growth. The population of the island has declined every year in the last decade. The United Nations publishes population projections for Puerto Rico through the year 2100.

Key Macroeconomic Assumptions Used in the Base Projection (cont'd)

The following provides an overview of the real GDP growth and inflation assumptions that result from the methodology outline previously

- The revised Base Projection reflects the trend deterioration in economic activity since the early 2000's
  - The Commonwealth has contracted 9 of the past 10 years from 2006-2015
  - The population of the Commonwealth has declined every year during that period
- Puerto Rico's position in the broader U.S. economy (given it is not a state) complicates the interpretation of a consistently declining real GDP
  - The decline in Commonwealth income is not reflected directly in per capita measures as population declines
  - Conversely, the Commonwealth could grow very quickly by reversing the migration flows and increasing labor participation rates (currently below 40%)

(annual percent change)	Gross domestic product	Consumer prices (period average)
2006-15	(0.9%)	2.3%

Fiscal Plan Base Growth and Inflation Projections[1]

	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Real GDP	(1.54%)	(1.79%)	(1.78%)	(1.79%)	(1.78%)	(1.77%)	(1.75%)	(1.71%)	(1.67%)
Inflation	1.89%	1.84%	1.79%	1.77%	1.77%	1.78%	1.80%	1.83%	1.89%
Nominal GDP	**0.35%**	**0.05%**	**0.01%**	**(0.02%)**	**(0.01%)**	**0.01%**	**0.05%**	**0.12%**	**0.22%**

- The Base Nominal growth rate is used to grow most revenue items included in the Commonwealth Fiscal Plan beyond FY 2017, with certain exceptions where revenues are either capped by statute or where the Commonwealth believes that the revenues are unlikely to correlate with Puerto Rico GDP growth
- The base inflation rate is used to drive many of the expenses included in the Fiscal Plan past FY 2017
- ***The following pages summarize the revenues and expenses in the Base Projections based on the approach, measures and macroeconomic assumptions detailed previously***

(1) Note that FY 2017 is not shown as it is based largely on budgetary numbers.

The Base Projection Building Blocks - FY '17 to FY '26

BASE PROJECTION INFLOW BUILD *($ billions)*

General Fund ("GF") Revenues	$81.1	GF includes majority of taxes, such as income, withholding and the GF portion of the sales and use tax; projection based on FY 2017 budget, generally grown at Base Nominal Rate; note that the effect of the expiration of the 154 excise tax is included herein (reduces revenues by $8.2 bn)
+ Additional Sales and Use Tax ("SUT")	$9.9	Includes additional SUT collections historically allocated to entities outside the GF (the GF revenues include a portion of SUT); projected based on actual FY 2017 GF revenue projections grown at the Base Nominal Rate
+ Other Tax Revenues	$14.0	Other Tax Revenues recorded outside of the GF, including those assigned to component units. The largest single amounts in this group are Petroleum Products and Gas taxes ($ 6.5 bn), Cigarette Taxes ($ 0.7 bn, and Casino Slot Revenues ($1.5 bn)
+ Other Non-Tax Revenues (Excl. Fed. Grants and GDB revenues)(1)	$6.5	Largest single amounts of non-tax revenues relate to charges for services, such as tuition and fees at UPR ($1.8 bn), net lottery revenues ($0.5 bn), HTA revenues such as road and train tolls ($2.6 bn)(1)
Base "Adjusted" Revenues	**$111.5**	

BASE PROJECTION OUTFLOW BUILD *($ billions)*

GF Expenses (Ex. Debt, AUC/AAC)	$88.4	Includes expenses to fund the primary functions of the central government, such as healthcare, public safety and education; projection based on FY 2017 budget generally grown by inflation; excludes debt service and shown after a reduction of debt service for entities largely funded by appropriations, such as PBA and UPR
+ AAC/AUC ("Incr. Retirement System Funding")	$11.0	Represents estimates, developed in conjunction with actuarial work done by Milliman, of the legally required AUC and AAC, as well as "catch-up" payments from previous years, required to adequately fund ERS, TRS and JRS retirement systems
+ Estimated Run-Rate Capex	$4.2	FY 2017 based on OMB Budget and FY 2018-2026 based on a review of recent historical data
+ Special Revenue Funds, Enterprise Funds and Component Units	$12.1	Includes the net result of blended and non-blended component units other than entities such as PREPA and PRASA, which are excluded from the plan; also includes projections of Special Revenue(2) and Enterprise Funds
+ Cigarette, Rum, SUT and Lotto Disbursements to Entities Outside Plan	$3.1	Includes tax and other revenues (such as cigarette excise tax, rum excise tax and lottery related outflows) to entities outside of the model (such as to the rum producers and municipalities)(3)
Base "Adjusted" Expenses	**$118.8**	

Note: Revenues shown already reflect the economic contraction referenced on page 5. Base Adjusted Expenses include retirement system "catch-up" payments.

(1) Note that Federal Grants and GDB revenues are included in the Fiscal Plan, but they are excluded from "Base Adjusted Revenues." Base Adjusted Revenues are developed as a metric that is meant to be comparable to state revenue collections apart from Federal Funding as a proxy for the discretionary revenues a state has available. Federal Grant revenues are provided for specific purposes and generally could not be repurposed for something such as debt service (unless specifically provided for debt service) which is only a very small portion of Federal Grants). GDB loan revenues have been excluded as they are not expected to be recurring since GDB is currently not extending new lines of credit.

(2) Special Revenue Funds shown on a net operating deficit basis, excluding tax revenues which are shown separately under revenues. The revenues and expenses embedded in the cumulative ten-year $1.6bn net deficit related to Special Revenue Funds include $4.7bn and $6.3bn, respectively. The Special Revenue Funds consist mostly of charges for services for public corporations and Commonwealth agencies

(3) Includes, among others, estimated outflows of $1.3bn and $500mm to private rum producers and municipalities for rum and lottery related outflows, respectively. Other outflows include outflows related to cigarette excise taxes and other rum excise tax outflows to other entities.

Base Projection Building Blocks - FY '17 to FY '26 (cont'd)

BASE PROJECTION INFLOW BUILD *($ billions)*

Adjusted Revenues	**$111.5**	
GDB Inflows[1]	**$2.0**	Represents GDB net loan and deposit inflows from entities excluded from the Fiscal Plan; excludes intra-governmental transfers from entities included in the Fiscal Plan
+		
Federal Transfers Before Loss of ACA Funding	**$75.1**	Represents transfers from the Federal Government that are applied to specific required expenditures and therefore are set equal to the transfers out, resulting in a net zero impact on the financing gap
−		
Loss of ACA Funding	**$16.1**	Represents the estimated impact from the depletion of ACA funding, estimated to occur in FY 2018; the total size of the impact grows over time based on the assumed increase in healthcare expenses
Total Inflows	**$172.5**	

Note that the impact of the ACA funding loss is illustratively shown as a reduction of revenues. Federal Transfer associated expenses are not shown as reduced, though in reality the Federal Transfer expenses would be reduced and in its place the Commonwealth would have to expend more of its own resources in order to continue operating its current healthcare system

BASE PROJECTION OUTFLOW BUILD *($ billions*)*

Adjusted Expenses	**$118.8**	
GDB Outflows	**$1.9**	Represents GDB net loan and deposit outflows to entities excluded from the Fiscal Plan; excludes intra-governmental transfers to entities included in the Fiscal Plan
+		
Federal Transfers Before Loss of ACA Funding	**$ 75.1**	Represents transfers from the Federal Government that are applied to specific required expenditures and therefore are set equal to the transfers out, resulting in a net zero impact on the financing gap
+		
Oversight Board Costs	**$370 mm**	Based on Congressional Budget Office June 3, 2016 Cost Estimate of H.R. 5278 (PROMESA), as ordered by the House Committee on Natural Resources
Outflows Excl. Debt Service	**$196.2**	

*Except where otherwise noted.

(1) Note GDB inflows include certain inflows related to TDF, though TDF payments on account of guarantees are included in debt service.

Base Projection Building Blocks - FY '17 to FY '26

BASE PROJECTION INFLOW BUILD *($ billions)*		BASE PROJECTION OUTFLOW BUILD *($ billions)*	
Total Inflows	**$172.5**	**Outflows Excl. Debt Service**	**$196.2**

Total Inflows Less Total Outflows Excl. Debt Service Results In….

A Base Financing Surplus/(Gap) ex. Debt Service	**($23.7)**

−

Debt Service	**$35.0**	Includes bonded debt service of entities included in the Fiscal Plan, including GO (including GSA loans), GDB, PBA, PFC, PRIFA (Bonds and BANs), UPR, PRCCDA, PRIDCO, HTA, ERS, and COFINA; Note that missed debt service payments from FY 2016 and 2017 are assumed to be paid in FY 2017[(1)]

−

Total Base Financing Surplus/(Gap)	**($58.7)**

(1) Note that for illustrative purposes, debt service excludes debt held by GDB and certain guaranteed debt including guaranteed debt of PRASA. Debt service is shown net of existing reserves.

Summary of Annual Base Projections

The following presents the Base Projections outlined on the previous pages, on an annual basis

- As shown below, the financing needs of the Commonwealth under the Base Projections are highest in the early years of the projections as the Commonwealth attempts to reinvest in its economy and pay back suppliers, many of whom are local businesses

Annual Summary of Financing Gap in the Base Projections from FY 2017 to FY 2026 ($ millions)

											Total	
	2017P	**2018P**	**2019P**	**2020P**	**2021P**	**2022P**	**2023P**	**2024P**	**2025P**	**2026P**	**5 Yr**	**10 Yr**
Adjusted Revenues												
GF Revs. after Act 154 / Foreign Company Tax Losses	$9,045	$8,564	$8,056	$8,024	$7,989	$7,954	$7,918	$7,884	$7,853	$7,825	$41,678	$81,111
Additional Sales and Use Tax ("SUT")	844	873	904	935	967	1,001	1,036	1,073	1,111	1,151	4,523	9,897
Other Tax Revenues	1,342	1,404	1,407	1,413	1,416	1,412	1,407	1,403	1,400	1,398	6,982	14,002
Other Non-Tax Revenues	598	612	623	633	661	663	665	667	670	680	3,128	6,474
Total Adjusted Revenues	**$11,829**	**$11,454**	**$10,990**	**$11,005**	**$11,033**	**$11,029**	**$11,027**	**$11,028**	**$11,034**	**$11,055**	**$56,312**	**$111,484**
Federal Transfers	7,000	7,114	7,226	7,337	7,448	7,561	7,676	7,794	7,917	8,046	36,124	75,118
GDB Net Inflows	236	233	233	211	186	183	181	181	178	176	1,098	1,998
Total Revenues pre-ACA Funding Loss	**$19,065**	**$18,801**	**$18,448**	**$18,553**	**$18,667**	**$18,773**	**$18,884**	**$19,003**	**$19,128**	**$19,276**	**$93,534**	**$188,599**
Loss of ACA Funding(1)	–	(865)	(1,517)	(1,583)	(1,681)	(1,835)	(1,954)	(2,070)	(2,253)	(2,384)	(5,646)	(16,141)
Total Revenues post-ACA Funding Loss	**$19,065**	**$17,935**	**$16,931**	**$16,970**	**$16,986**	**$16,939**	**$16,930**	**$16,933**	**$16,876**	**$16,893**	**$87,888**	**$172,458**
Adjusted Expenses												
General Fund Expenses (ex. Debt Serv. and AUC/AAC)	($8,102)	($8,456)	($8,597)	($8,694)	($8,888)	($8,887)	($8,971)	($9,128)	($9,355)	($9,354)	($42,737)	($88,432)
AAC/AUC(2)	(1,046)	(572)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(5,134)	(10,993)
Maintenance Capital Expenditures	(283)	(400)	(407)	(415)	(422)	(429)	(437)	(445)	(453)	(462)	(1,928)	(4,154)
Spec. Rev. Funds, Enterprise Funds and Comp. Units	(855)	(781)	(845)	(984)	(1,092)	(1,234)	(1,365)	(1,494)	(1,664)	(1,793)	(4,557)	(12,107)
Disbursement of Tax Revs. to Entities Outside Plan	(330)	(300)	(304)	(307)	(313)	(314)	(315)	(316)	(317)	(325)	(1,553)	(3,139)
Total Adjusted Expenses	**($10,616)**	**($10,508)**	**($11,326)**	**($11,571)**	**($11,887)**	**($12,036)**	**($12,260)**	**($12,554)**	**($12,960)**	**($13,105)**	**($55,908)**	**($118,824)**
Federal Programs	(7,000)	(7,114)	(7,226)	(7,337)	(7,448)	(7,561)	(7,676)	(7,794)	(7,917)	(8,046)	(36,124)	(75,118)
GDB Net Outflows	(236)	(277)	(315)	(308)	(186)	(113)	(114)	(115)	(115)	(116)	(1,322)	(1,895)
Oversight Board Costs	(200)	(150)	(5)	(5)	(5)	(5)	–	–	–	–	(365)	(370)
Total Expenses	**($18,052)**	**($18,049)**	**($18,872)**	**($19,221)**	**($19,526)**	**($19,715)**	**($20,049)**	**($20,463)**	**($20,992)**	**($21,267)**	**($93,720)**	**($196,206)**
Total Fin. Gap Pre-Measures before Debt Serv.	**$1,013**	**($114)**	**($1,941)**	**($2,251)**	**($2,540)**	**($2,777)**	**($3,120)**	**($3,530)**	**($4,116)**	**($4,374)**	**($5,832)**	**($23,748)**
Less: Debt Service(3)	(4,618)	(3,294)	(3,872)	(3,493)	(3,438)	(3,197)	(3,138)	(3,554)	(3,055)	(3,308)	(18,715)	(34,967)
Total Fin. Gap Pre-Measures after Debt Serv.	**($3,605)**	**($3,408)**	**($5,813)**	**($5,744)**	**($5,978)**	**($5,974)**	**($6,258)**	**($7,084)**	**($7,171)**	**($7,682)**	**($24,547)**	**($58,716)**
Memo: Embedded Impact of Act 154 / Foreign Company Tax Losses												
GF Revs. before Act 154 / Foreign Company Tax Losses	*$9,045*	*$9,045*	*$9,018*	*$8,986*	*$8,951*	*$8,916*	*$8,880*	*$8,846*	*$8,815*	*$8,787*	*$45,045*	*$89,288*
Act 154 / Foreign Company Tax Losses	–	*(481)*	*(962)*	*(962)*	*(962)*	*(962)*	*(962)*	*(962)*	*(962)*	*(962)*	*(3,367)*	*(8,177)*
GF Revs. after Act 154 / Foreign Company Tax Losses	*$9,045*	*$8,564*	*$8,056*	*$8,024*	*$7,989*	*$7,954*	*$7,918*	*$7,884*	*$7,853*	*$7,825*	*$41,678*	*$81,111*
Memo: Macroeconomic Assumptions												
Real Revenue Growth	*N/A*	*(1.5%)*	*(1.8%)*	*(1.8%)*	*(1.8%)*	*(1.8%)*	*(1.8%)*	*(1.7%)*	*(1.7%)*	*(1.7%)*		
Inflation	*N/A*	*1.9%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.8%*	*1.9%*		

(1) Assumes that the Commonwealth directly offsets the loss of ACA funding with local spend.
(2) Includes AUC catch-up payments.
(3) Includes principal and interest payments that may have been missed in FY 2016 and FY 2017. Debt service shown net of existing reserved used to pay debt service. Note that for illustrative purposes, debt service excludes debt held by GDB and certain guaranteed debt including guaranteed debt of PRASA. Debt service is shown net of existing reserves.

Estimated Impact of Financial Measures

As illustrated below, the measures resulting from the principles outlined previously would be expected, before the benefit of a change in the trajectory of the Commonwealth economy, to reduce the Base Financing Gap by $10 billion

Annual Summary of Measures ($ millions)

	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	Total 5 Yr	Total 10 Yr
Meas. Aimed at Impr. Budg. Controls and Fiscal & Econ. Dec.-Making												
Adopt Institute of Statistics / Planning Board Five-Year Plan	($3)	($3)	($3)	($3)	($3)	($3)	($3)	($3)	($3)	($3)	($15)	($30)
Install New Accounting and Financial Systems	(30)	–	–	–	–	–	–	–	–	–	(30)	(30)
Improve Budg. Controls and Fiscal & Econ. Dec.-Making	**(33)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(45)**	**(60)**
Meas. Aimed at Rationalizing Exps. and Tax Policy to Promote Effic.												
Expense Measures												
Reduce Operating Costs	–	397	528	723	807	798	790	781	773	766	2,455	6,364
Right-Size Department of Education	–	42	71	99	127	129	131	134	136	139	339	1,008
Control Healthcare Costs	(4)	65	93	93	93	95	96	98	100	102	340	830
Cut Governmental Subsidies	–	47	96	145	244	343	342	341	340	339	532	2,237
Total Expense Measures	*(4)*	*551*	*788*	*1,059*	*1,271*	*1,365*	*1,359*	*1,354*	*1,349*	*1,346*	*3,665*	*10,439*
Revenue Measures												
Improve Tax Enforcement and Administration	10	121	151	171	169	167	163	161	158	156	622	1,428
Address Upcoming Act 154 Revenue Cliff	–	481	962	962	962	962	962	962	962	962	3,367	8,177
Total Revenue Measures	*10*	*602*	*1,113*	*1,133*	*1,131*	*1,129*	*1,125*	*1,123*	*1,120*	*1,118*	*3,989*	*9,605*
Total Rationalizing Exps. and Tax Policy	**6**	**1,153**	**1,901**	**2,192**	**2,403**	**2,494**	**2,485**	**2,477**	**2,470**	**2,464**	**7,655**	**20,044**
Meas. Aimed at Enacting Structural Reform and Growth												
Establish a Local EITC Program	–	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(600)	(1,350)
Pay Local Businesses for Past Services and Pay Tax Refunds	(565)	(272)	(272)	(272)	(272)	–	–	–	–	–	(1,653)	(1,653)
Build Deposits to Provide Confidence	(214)	(214)	(214)	(214)	(214)	–	–	–	–	–	(1,069)	(1,069)
Invest in Incr. Main. Capex over Run-Rate	(141)	(528)	(397)	(273)	(103)	(104)	(106)	(108)	(110)	(112)	(1,442)	(1,983)
Invest in Economic Growth Projects	(54)	(400)	(466)	(476)	(353)	(316)	(187)	(113)	(103)	(103)	(1,749)	(2,572)
Total Enacting Struct. Reform and Growth	**(974)**	**(1,564)**	**(1,499)**	**(1,385)**	**(1,091)**	**(570)**	**(443)**	**(371)**	**(363)**	**(366)**	**(6,514)**	**(8,627)**
Meas. Aimed at Protecting Vuln. Stakeholders												
Implement Pension System Reform (1)	(166)	(166)	(116)	(116)	(116)	(116)	(116)	(116)	(116)	(116)	(681)	(1,263)
Total Protecting Vulnerable Stakeholders	**(166)**	**(166)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(681)**	**(1,263)**
Total Measures Impact	**($1,167)**	**($581)**	**$283**	**$687**	**$1,193**	**$1,804**	**$1,922**	**$1,987**	**$1,987**	**$1,979**	**$415**	**$10,094**
Memo: Estimated Impact on Economic Growth												
Change in Economic Trajectory	*–*	*202*	*340*	*501*	*718*	*939*	*1,185*	*1,427*	*1,612*	*1,782*	*1,761*	*8,707*
Total Measures incl. Change in Economic Trajectory	*($1,167)*	*($378)*	*$623*	*$1,188*	*$1,910*	*$2,743*	*$3,108*	*$3,414*	*$3,599*	*$3,761*	*$2,176*	*$18,801*

Memo: Macroeconomic Assumptions	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Real Revenue Growth	*N/A*	*0.6%*	*(0.3%)*	*(0.1%)*	*0.2%*	*0.2%*	*0.4%*	*0.3%*	*(0.0%)*	*(0.2%)*
Inflation	*N/A*	*2.1%*	*2.0%*	*1.9%*	*1.9%*	*1.9%*	*2.0%*	*2.1%*	*2.0%*	*1.9%*

(1) Illustratively includes the reduction in the estimated portion of AUC as result of the exclusion of debt service, which amounts to approximately $80 million over the 10-year projection period.

Incremental Saving / (Spend) from Measures

The Fiscal Plan is not intended to be an austerity plan, but rather largely redirects spending from inefficient uses towards uses more likely to produce economic growth

- As illustrated below, excluding (1) certain measures aimed at maintaining current revenues and spending (such as reforms to the corporate tax code to replace Act 154 revenues and an extension of Act 66) and (2) the build in deposits, the Commonwealth's revenue reforms and expenditure cuts largely fund the incremental spending the Commonwealth projects to stimulate growth in the economy
- The spending is highest in the early years so as to jumpstart growth and stop outmigration as the Commonwealth implements structural reforms

Annual Summary of Incremental Savings / (Spend) from Measures ($ millions)

	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	Total 5 Yr	Total 10 Yr
Total Measures Impact	**($1,167)**	**($581)**	**$283**	**$687**	**$1,193**	**$1,804**	**$1,922**	**$1,987**	**$1,987**	**$1,979**	**$415**	**$10,094**
Less: Measures Aimed at Maintaining Current Revs./Exps.												
Address Upcoming Act 154 Revenue Cliff	–	(481)	(962)	(962)	(962)	(962)	(962)	(962)	(962)	(962)	(3,367)	(8,177)
Extend Law 66 / Implement Long-Term Budg. Reform	–	(178)	(257)	(336)	(416)	(400)	(384)	(368)	(353)	(338)	(1,187)	(3,030)
Measures Aimed at Maintaining Current Revs./Exps.	–	($659)	($1,219)	($1,298)	($1,378)	($1,362)	($1,346)	($1,330)	($1,315)	($1,300)	(4,554)	(11,207)
Plus: Deposit Build	$214	$214	$214	$214	$214	–	–	–	–	–	$1,069	$1,069
Total Incremental Savings / (Spend) from Measures	**($953)**	**($1,026)**	**($723)**	**($397)**	**$28**	**$443**	**$576**	**$656**	**$672**	**$679**	**($3,071)**	**($44)**

Macroeconomic Projections for the Post-Measures Scenario

The following provides an overview of the post-measures scenario

- The starting point is the Base Projections, reflecting current policies projected from FY 2017 - FY 2026
- The post-measures scenario shows the projected impact of fiscal and growth measures over the period, including:
  - The improvement in the fiscal position resulting from the measures
  - The improvement in long-term (potential) growth from growth enhancing measures, including Earned Income Tax Credit, capital expenditure, better public financial management and repaying overstretched suppliers
  - The cyclical impact of measures, which reduce (expand) short-term real GDP growth when policies increase (cut) fiscal revenues (expenditures)
    - The cyclical impact is captured by the fiscal multiplier of 1.3 (Nakamura and Steinsson: Fiscal Stimulus in a Monetary Union, American Economic Review, 2014)
- As the economy contracts (expands), output falls below potential real GDP, creating slack in the economy, lowering wages and prices

Macroeconomic Projections for the Post-Measures Scenario (cont'd)

The following provides an overview of the post-measures scenario

- Eventually, low wages and prices create attractive investment opportunities
  - This is the primary mechanism to close the output gap and undo the cyclical impact of measures
  - This adjustment can be slow, as the Commonwealth (and U.S. States) cannot devalue its currency relative to other U.S. States (unlike countries) to quickly and easily make labor and investment more attractive
  - This again underscores the need to enhance growth measures, and take structural reforms to make markets more efficient and adjust as quickly and painlessly as possible
  - Growth enhancing measures create opportunities and investment to ensure potential GDP growth does not remain negative because people move to the U.S. mainland
- The resulting nominal GDP feeds revenues and produces a new primary fiscal deficit
  - Puerto Rico is assumed to self-finance this fiscal reform package since there is no new financing available. Hence, the package of measures is adjusted to close the primary deficit, which feeds back to real GDP, the output gap, inflation and nominal GDP
  - This feedback loop continues until it converges on a stable fiscal deficit, growth and nominal GDP growth path; the output gap assumed to slowly close at the end of the ten-year projection period
- It is critical to underscore that the macro-fiscal scenarios focus on self-financing the primary deficit. Existing interest and amortization schedules are assumed to be financed at 0% so as to arrive at a reasonable estimate of size of the fiscal and growth problem going forward, apart from the legacy of past decisions and growth challenges, as reflected in the existing debt service schedule

Fiscal Plan Post-Measures Growth and Inflation Projections

	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Real GDP	0.58%	(0.27%)	(0.11%)	0.20%	0.19%	0.36%	0.26%	(0.02%)	(0.18%)
Inflation	2.06%	2.05%	1.94%	1.92%	1.92%	2.00%	2.07%	2.03%	1.89%
Nominal GDP	**2.64%**	**1.77%**	**1.84%**	**2.11%**	**2.11%**	**2.36%**	**2.33%**	**2.02%**	**1.72%**

Annual Projections Including Measures

The following shows the annual projected financing surplus/(gap) after incorporating the measures outlined previously

- As shown below, in all years of the plan a deficit remains even after excluding all debt service and after incorporating the potential benefits of economic growth
  - The larger deficits in the early years are driven by the large capital expenditures made during the period as well as the payments of past-due payables
    - Note that the growth rate is estimated only based on the potential surplus available to fund these spending amounts (*i.e.*, Puerto Rico is assumed only be able to spend up to the amount until the surplus goes to zero); no external financing is assumed to fund the deficits shown and further financing could increase future deficits due to associated debt service costs
- Assuming average real GDP growth that averages 0.1% between FY 2018 and FY 2026 as compared to negative 1.7% in the base, **there is still projected to be a deficit of $5.7 billion** over ten years

Annual Summary of Financing Gap in the Post-Measures Projections from FY 2017 to FY 2026 ($ millions)

											Total	
	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	5 Yr	10 Yr
Fin. Gap Pre-Measures after Debt Serv.	**($3,605)**	**($3,408)**	**($5,813)**	**($5,744)**	**($5,978)**	**($5,974)**	**($6,258)**	**($7,084)**	**($7,171)**	**($7,682)**	**($24,547)**	**($58,716)**
Plus: Debt Service(1)	3,909	3,294	3,872	3,493	3,438	3,197	3,138	3,554	3,055	3,308	18,007	34,258
Fin. Gap Pre-Measures before Debt Serv.	**$304**	**($114)**	**($1,941)**	**($2,251)**	**($2,540)**	**($2,777)**	**($3,120)**	**($3,530)**	**($4,116)**	**($4,374)**	**($6,541)**	**($24,457)**
Measures Impact												
Impr. Budg. Controls & Fiscal and Econ. Dec.-Making	(33)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(45)	(60)
Rationalize Exp. and Tax Policy to Promote Effic.	6	1,153	1,901	2,192	2,403	2,494	2,485	2,477	2,470	2,464	7,655	20,044
Enact Struct. & Econ. Measures and Invest in Growth	(974)	(1,564)	(1,499)	(1,385)	(1,091)	(570)	(443)	(371)	(363)	(366)	(6,514)	(8,627)
Protect Vulnerable Stakeholders(2)	(166)	(166)	(116)	(116)	(116)	(116)	(116)	(116)	(116)	(116)	(681)	(1,263)
Total Measures Impact	*(1,167)*	*(581)*	*283*	*687*	*1,193*	*1,804*	*1,922*	*1,987*	*1,987*	*1,979*	*415*	*10,094*
Fin. Gap Post-Meas. ex. Debt Serv. & Econ. Impact	**($863)**	**($694)**	**($1,658)**	**($1,563)**	**($1,347)**	**($972)**	**($1,197)**	**($1,543)**	**($2,129)**	**($2,395)**	**($6,126)**	**($14,363)**
Est. Incr. Inc. from Econ. Dev. and Struct. Reforms	–	202	340	501	718	939	1,185	1,427	1,612	1,782	1,761	8,707
Fin. Gap Post-Meas. incl. Growth ex. Debt Serv.	**($863)**	**($492)**	**($1,318)**	**($1,063)**	**($629)**	**($34)**	**($12)**	**($116)**	**($517)**	**($613)**	**($4,365)**	**($5,656)**
Memo: Macroeconomic Assumptions												
Real Revenue Growth	*N/A*	*0.6%*	*(0.3%)*	*(0.1%)*	*0.2%*	*0.2%*	*0.4%*	*0.3%*	*(0.0%)*	*(0.2%)*		
Inflation	*N/A*	*2.1%*	*2.0%*	*1.9%*	*1.9%*	*1.9%*	*2.0%*	*2.1%*	*2.0%*	*1.9%*		

(1) Includes principal and interest payments that may have been missed in FY 2016 and FY 2017. Debt service shown net of existing reserves used to pay debt service. Note that for illustrative purposes, debt service excludes debt held by GDB and excludes revenues otherwise allocated to COFINA FY 2017 debt service.
(2) Illustratively includes the reduction in the estimated portion of AUC as result of the exclusion of debt service, which amounts to approximately $80 million over the 10-year projection period.

A Replacement for ACA Funding Could Materially Improve Puerto Rico's Fiscal Position

Given a financing gap remains even after Puerto Rico implements the measures in its control, it is essential that the U.S. Government become a partner in promoting economic growth in Puerto Rico through items such as equitable healthcare treatment to replace ACA funding

- Shown below is the illustrative impact of the U.S. Government providing the Commonwealth with more equitable healthcare treatment, which is assumed to at least replace the loss of ACA funding
- Even with actions of the U.S. Federal Government, there are still negative cash flows in the early years of the projections driven by large capital expenditures and past-due payable payments that may potentially require either delay or new, interim financing (for illustrative purposes no incremental financing cost is assumed)
- By FY 2018, however, these actions combined with the measures outlined previously and the potential benefit of incremental economic growth that would result from the elimination of the deficits that existed prior to ACA funding could remove structural deficits and would produce a ten year financing *surplus* before debt service of $18.9 billion
  - Note that this growth would not be possible without ACA type funding and that, even if ACA funding were received, it may not be advisable to use as a level for setting fixed (vs. contingent) debt service given it would be such a drastic turnaround for the Commonwealth economy

Annual Summary of Financing Gap After Select Federal Actions ($ millions)

	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	Total 5 Yr	Total 10 Yr
Fin. Gap Before U.S. Gov't Action	**($863)**	**($492)**	**($1,318)**	**($1,063)**	**($629)**	**($34)**	**($12)**	**($116)**	**($517)**	**($613)**	**($4,365)**	**($5,656)**
Replacement of ACA Funding	–	865	1,517	1,583	1,681	1,835	1,954	2,070	2,253	2,384	5,646	16,141
Fin. Gap After U.S. Gov't Action	**($863)**	**$374**	**$199**	**$520**	**$1,052**	**$1,801**	**$1,942**	**$1,954**	**$1,736**	**$1,771**	**$1,281**	**$10,485**
Change in Economic Trajectory	–	67	312	602	849	1,001	1,130	1,277	1,460	1,682	1,830	8,378
Fin. Gap After U.S. Gov't Action & Econ. Imp.	**($863)**	**$441**	**$512**	**$1,122**	**$1,901**	**$2,802**	**$3,072**	**$3,231**	**$3,195**	**$3,452**	**$3,112**	**$18,863**
Memo: Financing Gap After Debt Service												
Inclusion of Debt Service [1]	*(3,909)*	*(3,294)*	*(3,872)*	*(3,493)*	*(3,438)*	*(3,197)*	*(3,138)*	*(3,554)*	*(3,055)*	*(3,308)*	*(18,007)*	*(34,258)*
Fin. Gap Incl. Debt Serv. After U.S. Gov't Action	*($4,772)*	*($2,853)*	*($3,361)*	*($2,371)*	*($1,538)*	*($396)*	*($66)*	*($323)*	*$141*	*$144*	*($14,895)*	*($15,395)*
Memo: Macroeconomic Assumptions												
Real Revenue Growth	*N/A*	*1.3%*	*1.9%*	*1.9%*	*1.6%*	*1.1%*	*1.2%*	*1.3%*	*1.2%*	*1.2%*		
Inflation	*N/A*	*2.2%*	*2.7%*	*3.1%*	*3.1%*	*2.9%*	*2.6%*	*2.3%*	*2.0%*	*1.6%*		

(1) Includes principal and interest payments that may have been missed in FY 2016 and FY 2017. Debt service shown net of existing reserves used to pay debt service. Note that for illustrative purposes, debt service excludes debt held by GDB and excludes revenues otherwise allocated to COFINA FY 2017 debt service.

Fiscal Plan Macroeconomic Assumptions

The following tables summarize the projected real and nominal GDP growth rates used in the Base Projections, as well as the growth rates assumed post-measures including and excluding U.S. government assistance in the form of ACA type funding, illustrating the potential positive impacts of actions by the U.S. government

Base Projections

	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Real GDP	(1.54%)	(1.79%)	(1.78%)	(1.79%)	(1.78%)	(1.77%)	(1.75%)	(1.71%)	(1.67%)
Inflation	1.89%	1.84%	1.79%	1.77%	1.77%	1.78%	1.80%	1.83%	1.89%
Nominal GDP	**0.35%**	**0.05%**	**0.01%**	**(0.02%)**	**(0.01%)**	**0.01%**	**0.05%**	**0.12%**	**0.22%**

Post-Measures, Without U.S. Government Action Projections

	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Real GDP	0.58%	(0.27%)	(0.11%)	0.20%	0.19%	0.36%	0.26%	(0.02%)	(0.18%)
Inflation	2.06%	2.05%	1.94%	1.92%	1.92%	2.00%	2.07%	2.03%	1.89%
Nominal GDP	**2.64%**	**1.77%**	**1.84%**	**2.11%**	**2.11%**	**2.36%**	**2.33%**	**2.02%**	**1.72%**

Post-Measures, With U.S. Government Action Projections

	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P
Real GDP	1.34%	1.90%	1.88%	1.63%	1.15%	1.21%	1.31%	1.19%	1.22%
Inflation	2.15%	2.69%	3.06%	3.15%	2.93%	2.63%	2.32%	1.97%	1.61%
Nominal GDP	**3.49%**	**4.59%**	**4.94%**	**4.78%**	**4.08%**	**3.84%**	**3.63%**	**3.16%**	**2.83%**

Footnotes

Footnotes to “Debt of Entities Included in the Fiscal Plan”

The following footnotes provide additional detail to page 67

2. Please note that all figures are subject to ongoing diligence and numbers may change materially. All bonds are included as of July 2, 2016; loans as of June 30, 2016 and do not include unpaid interest, if any, and do not include payments made by insurers, where applicable.
3. Excludes estimated CAB accretion, which is shown separately as of July 2, 2016. Capital Appreciation Bonds (“CAB”) are zero coupon bonds that accrete in value until maturity instead of making regularly scheduled interest payments. This accretion is treated in reporting as ‘interest’ rather than principal and is broken out separately from initial par values.
4. Missed interest is for FY 2016 and as of July 2, 2016.
5. Private loan figures are representative of loans at non-government entities. Figures include non-bank municipal loans.
6. Includes operational loans from GDB to the PR Treasury Department, including $102 million of loans from other CW entities representing Trade and Export Company ($14 million), GDB loans to various minor CW entities, and operational loans payable from GDB to PR Treasury representing long-term credit facilities of $100 million from the SIF and $2 million from the Automobile Accidents Compensation Administration ("AACA").
7. HTA includes Teodoro Moscoso bonds and VRDOs held by GDB.
8. GDB bonds include $110mm of CW-guaranteed bonds issued to the SIF. Where there are TDF guaranteed bonds and loans that TDF is paying out on, they have been reflected in the GDB bonds and loans.
9. Includes PRIFA Rum bonds, PRIFA Petroleum Products Excise Tax BANs, PRIFA Ports Authority bonds and PRIFA ASSMCA bonds.
10. Includes the AFICA - Desarrollos Universitarios University Plaza Project bonds. Desarrollos Universitarios, a component unit of UPR, although legally separate, is reported as if it was part of the primary government because its debt is expected to be repaid entirely, or almost entirely, with resources of UPR (via lease payments from UPR to Desarrollos Universitarios).
11. APLA is excluded as the debt is owned by GDB and thus debt service is intragovernmental. See footnote 6. Additional diligence is required to determine if entities are included in or excluded from the plan but it is believed that most are Fiscal Plan entities.
12. Includes Series 2016 A, B, C, D and E Bonds.
13. PRASA includes CW-guaranteed debt of (i) $521 million in Loans from Other CW Entities representing the CWSRF and DWSRF, (ii) $285 million in bonds representing the 2008 Sub. Refunding bonds, and (iii) $394 million in bonds representing the Rural Development bonds.
14. Note that Municipality Related Debt includes MFA, CAE, IVU, and other municipal debt. Loans from other CW entities includes $570 million in loans from MFA to be repaid by the CAE tax. Also includes municipalities general fund resources, the AFICA Guaynabo Municipal Gov. Center ($8.3 million) and the AFICA - Guaynabo Warehouse for Emergencies ($6.7 million) bonds.
15. Excludes TDF guaranteed bonds and loans that TDF is paying out on to third parties.

Additional Detail on Fiscal Plan Projections

Summary Page - Revenues

The following table presents a detailed summary of revenues included in the Fiscal Plan Base Projections

		2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	Total 5 Yr	Total 10 Yr
	Revenues before Measures												
	General Fund Revenues (incl. Act 154 / Excise Tax Losses)												
1	Individual Income Taxes	$1,966	$1,972	$1,973	$1,972	$1,971	$1,970	$1,970	$1,970	$1,972	$1,975	$9,854	$19,711
2	Corporate Income Taxes	1,525	1,565	1,565	1,565	1,564	1,563	1,563	1,563	1,565	1,568	7,784	15,606
3	Non-Resident Withholdings	763	763	763	763	763	763	763	763	763	763	3,815	7,630
4	Act 154 / Excise Tax Revenues	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	9,620	19,240
5	Estimated Loss of Act 154 / Foreign Company Tax Revenues	–	(481)	(962)	(962)	(962)	(962)	(962)	(962)	(962)	(962)	(3,367)	(8,177)
6	Excise Taxes on Alcoholic Beverages	272	273	273	273	273	273	273	273	273	273	1,363	2,727
7	Motor Vehicle Excise Taxes	293	294	294	294	294	294	294	294	294	294	1,469	2,938
8	Excise Taxes on Off-Shore Shipments Rum	206	168	170	171	172	174	175	176	178	179	887	1,769
9	General Fund Portion of 11.5% SUT	1,608	1,586	1,557	1,525	1,491	1,456	1,420	1,384	1,348	1,310	7,767	14,685
10	Cigarette Excise Taxes	117	117	117	117	117	117	117	117	117	118	586	1,173
11	Casino Slot Revenues	18	18	18	18	18	18	18	18	18	18	90	180
12	Lotteries	65	80	80	80	80	80	80	80	80	80	386	787
13	Other General Fund Tax Revenues	117	112	112	112	112	112	112	112	112	113	566	1,128
14	Other General Fund Non-Tax Revenues	171	172	172	172	171	171	171	171	171	172	857	1,714
15	*General Fund Revenues (incl. Act 154 / Excise Tax Losses)*	*9,045*	*8,564*	*8,056*	*8,024*	*7,989*	*7,954*	*7,918*	*7,884*	*7,853*	*7,825*	*41,678*	*81,111*
	Additional Sales and Use Tax ("SUT")												
16	COFINA Portion of 6% SUT	724	753	783	815	847	881	916	953	991	1,031	3,922	8,694
17	Portion of 11.5% SUT - FAM	117	117	117	117	117	117	117	117	117	117	585	1,171
18	Portion of 11.5% SUT - Cine	3	3	3	3	3	3	3	3	3	3	16	32
19	*Additional Sales and Use Tax ("SUT")*	*844*	*873*	*904*	*935*	*967*	*1,001*	*1,036*	*1,073*	*1,111*	*1,151*	*4,523*	*9,897*
	Other Tax Revenues												
20	Non-Resident Withholdings (Special Revenue Fund)	59	59	59	59	59	59	59	59	59	59	295	590
21	Excise Taxes on Off-Shore Shipments Rum (Special Revenue Fund)	174	136	137	138	139	140	141	142	143	144	724	1,436
22	Room Taxes	77	81	85	88	88	88	88	88	88	88	419	858
23	Cigarette Excise Taxes (Special Revenue Fund)	67	67	67	67	67	67	67	67	67	67	337	674
24	Petroleum Products (Crudita) Excise Tax	411	510	510	510	510	510	510	510	510	510	2,451	5,001
25	Gas Oil and Diesel Excise Taxes	13	13	13	13	13	12	12	11	11	11	63	119
26	Gasoline Excise Tax Revenue	151	146	145	146	148	143	139	134	129	126	736	1,407
27	Vehicle License Fees	93	93	93	93	93	93	93	93	93	93	463	927
28	Other Special Revenue Fund Tax Revenues	53	53	53	53	53	53	53	53	53	53	263	527
29	Casino Slot Revenues	140	142	142	142	142	142	142	142	142	143	709	1,420
30	CRIM Property Tax Inflows	104	104	104	104	104	104	104	104	104	104	521	1,042
31	*Other Tax Revenues*	*1,342*	*1,404*	*1,407*	*1,413*	*1,416*	*1,412*	*1,407*	*1,403*	*1,400*	*1,398*	*6,982*	*14,002*
	Other Non-Tax Revenues												
32	Lotteries - Munis & Other	38	46	48	50	56	56	55	55	55	62	239	522
33	HTA Non-Tax Revenues (ex. Teodoro Moscoso)	240	245	249	252	252	252	252	252	252	253	1,238	2,500
34	Teodoro Moscoso Bridge Revenues	–	–	–	–	20	20	20	20	20	20	20	120
35	PRIDCO Rent and Other Non-Tax Revenues	67	67	69	71	71	71	71	71	71	71	344	699
36	UPR Tuition, Fees and Other Non-Tax Revenues(1)	169	171	174	176	178	180	183	185	188	190	868	1,795
37	PRCCDA Rent and Other Non-Tax Revenues	4	4	4	4	4	4	4	4	4	4	20	40
38	Net Income of Select Component Units(2)	80	80	80	80	80	80	80	80	80	80	399	799
39	*Other Non-Tax Revenues*	*598*	*612*	*623*	*633*	*661*	*663*	*665*	*667*	*670*	*680*	*3,128*	*6,474*
40	**Total Adjusted Revenue before Measures pre-ACA Funding Loss**	**$11,829**	**$11,454**	**$10,990**	**$11,005**	**$11,033**	**$11,029**	**$11,027**	**$11,028**	**$11,034**	**$11,055**	**$56,312**	**$111,484**
41	GDB Loan Inflows	236	233	233	211	186	183	181	181	178	176	1,098	1,998
42	Federal Transfers	7,000	7,114	7,226	7,337	7,448	7,561	7,676	7,794	7,917	8,046	36,124	75,118
43	**Total Revenues before Measures pre-ACA Funding Loss**	**$19,065**	**$18,801**	**$18,448**	**$18,553**	**$18,667**	**$18,773**	**$18,884**	**$19,003**	**$19,128**	**$19,276**	**$93,534**	**$188,599**
44	Loss of Affordable Care Act ("ACA") Funding	–	(865)	(1,517)	(1,583)	(1,681)	(1,835)	(1,954)	(2,070)	(2,253)	(2,384)	(5,646)	(16,141)
45	**Total Revenues before Measures post-ACA Funding Loss**	**$19,065**	**$17,935**	**$16,931**	**$16,970**	**$16,986**	**$16,939**	**$16,930**	**$16,933**	**$16,876**	**$16,893**	**$87,888**	**$172,458**

(1) Excludes Federal Grants.
(2) Represents the net income estimates of entities without bonded debt that have historically provided a surplus. Net numbers are shown as these entities generally receive independent revenues that would not be generated absent the associated expenses. Note that numbers are shown excluding capital expenditures, which are shown elsewhere and forward estimates are based on a review of historical results.

Summary Page - Expenses

The following table presents a detailed summary of non-interest expenditures included in the Fiscal Plan Base Projections

		2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	Total 5 Yr	Total 10 Yr
	Non-Debt Expenditure before Measures												
	General Fund Expenses (ex. AUC/AAC and Debt Service)												
44	Direct Payroll	($3,271)	($3,333)	($3,394)	($3,455)	($3,516)	($3,578)	($3,642)	($3,707)	($3,775)	($3,847)	($16,969)	($35,519)
45	Direct Operational Expenses	(907)	(924)	(941)	(958)	(975)	(992)	(1,010)	(1,028)	(1,047)	(1,066)	(4,705)	(9,848)
46	Utilities	(260)	(332)	(352)	(360)	(374)	(373)	(370)	(375)	(388)	(396)	(1,678)	(3,580)
47	Special Appropriations - UPR Formula	(791)	(836)	(836)	(836)	(836)	(836)	(836)	(836)	(836)	(848)	(4,136)	(8,329)
48	Special Appropriations - Judicial Formula	(324)	(366)	(366)	(366)	(366)	(366)	(366)	(366)	(366)	(366)	(1,789)	(3,619)
49	Special Appropriations - Municipalities Formula	(361)	(371)	(371)	(371)	(371)	(371)	(371)	(371)	(371)	(371)	(1,845)	(3,701)
50	Special Appropriations - Retirement Systems	(371)	(424)	(480)	(536)	(543)	(535)	(529)	(595)	(593)	(587)	(2,354)	(5,193)
51	Special Appropriations - Health Insurance	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(885)	(4,425)	(8,850)
52	Special Appropriations - Other	(932)	(984)	(972)	(926)	(1,021)	(950)	(962)	(964)	(1,093)	(987)	(4,836)	(9,792)
53	*General Fund Expenses (ex. AUC/AAC and Debt Service)*	*(8,102)*	*(8,456)*	*(8,597)*	*(8,694)*	*(8,888)*	*(8,887)*	*(8,971)*	*(9,128)*	*(9,355)*	*(9,354)*	*(42,737)*	*(88,432)*
	AAC/AUC												
54	AUC and AAC ex. Catch-Up Payments[1]	(642)	(572)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(1,172)	(4,729)	(10,588)
55	*AAC/AUC*	*(642)*	*(572)*	*(1,172)*	*(1,172)*	*(1,172)*	*(1,172)*	*(1,172)*	*(1,172)*	*(1,172)*	*(1,172)*	*(4,729)*	*(10,588)*
	Maintenance Capital Expenditures												
56	Run-Rate Capital Expenditures (excl. growth Capex)	(283)	(400)	(407)	(415)	(422)	(429)	(437)	(445)	(453)	(462)	(1,928)	(4,154)
57	*Maintenance Capital Expenditures*	*(283)*	*(400)*	*(407)*	*(415)*	*(422)*	*(429)*	*(437)*	*(445)*	*(453)*	*(462)*	*(1,928)*	*(4,154)*
	Component Units, Non-GF Funds and Enterprise Funds												
58	Net Deficit of Special Revenue Funds ex. Tax Revenues[2]	(109)	(118)	(129)	(140)	(151)	(162)	(174)	(185)	(197)	(209)	(648)	(1,575)
59	PRCCDA Expenses	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(24)	(49)
60	PRIDCO Expenses	(104)	(105)	(106)	(106)	(107)	(108)	(109)	(110)	(111)	(112)	(528)	(1,079)
61	UPR Expenses	(175)	(137)	(143)	(151)	(173)	(195)	(218)	(242)	(266)	(280)	(779)	(1,980)
62	Net Op. Deficit of Other Independently Projected Component Units ex. Tax Revs.[3]	(204)	(171)	(213)	(331)	(402)	(504)	(595)	(683)	(811)	(908)	(1,320)	(4,820)
63	Net Deficit of Select Component Units ex. Tax Revenues[4]	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(13)	(26)
64	Net Deficit of Enterprise Funds[5]	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(8)	(9)	(9)	(34)	(76)
65	HTA Operational Expenses (excl. Debt Service, T. Moscoso and Capex)	(246)	(234)	(236)	(238)	(237)	(241)	(246)	(250)	(255)	(259)	(1,191)	(2,442)
66	Teodoro Moscoso Expenses (excl. Debt Service and Capex)	–	–	–	–	(4)	(4)	(4)	(4)	(5)	(5)	(4)	(26)
67	Allocation of SUT to Cine	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(16)	(32)
68	*Component Units, Non-GF Funds and Enterprise Funds*	*(855)*	*(781)*	*(845)*	*(984)*	*(1,092)*	*(1,234)*	*(1,365)*	*(1,494)*	*(1,664)*	*(1,793)*	*(4,557)*	*(12,107)*
	Disbursements of Tax Revenues to Entities Outside Plan												
69	Cigarette and Rum Shipment Excise Tax Related Outflows	(175)	(137)	(138)	(139)	(140)	(141)	(142)	(143)	(144)	(145)	(729)	(1,446)
70	Lotteries Related Outflows - Munis & Other	(38)	(46)	(48)	(50)	(56)	(56)	(55)	(55)	(55)	(62)	(239)	(522)
71	Allocation of SUT to FAM	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(585)	(1,171)
72	*Disbursements of Tax Revenues to Entities Outside Plan*	*(330)*	*(300)*	*(304)*	*(307)*	*(313)*	*(314)*	*(315)*	*(316)*	*(317)*	*(325)*	*(1,553)*	*(3,139)*
73	**Adjusted Expenses**	**($10,212)**	**($10,508)**	**($11,326)**	**($11,571)**	**($11,887)**	**($12,036)**	**($12,260)**	**($12,554)**	**($12,960)**	**($13,105)**	**($55,504)**	**($118,419)**
74	GDB Loan and Net Deposit Outflows	(236)	(277)	(315)	(308)	(186)	(113)	(114)	(115)	(115)	(116)	(1,322)	(1,895)
75	Federal Programs	(7,000)	(7,114)	(7,226)	(7,337)	(7,448)	(7,561)	(7,676)	(7,794)	(7,917)	(8,046)	(36,124)	(75,118)
76	Federal Oversight Board Implemented by PROMESA	(200)	(150)	(5)	(5)	(5)	(5)	–	–	–	–	(365)	(370)
77	AUC Catch-Up Payments[6]	(405)	–	–	–	–	–	–	–	–	–	(405)	(405)
78	**Total Noninterest Expenditures**	**($18,052)**	**($18,049)**	**($18,872)**	**($19,221)**	**($19,526)**	**($19,715)**	**($20,049)**	**($20,463)**	**($20,992)**	**($21,267)**	**($93,720)**	**($196,206)**

(1) Incremental contributions represent the Annual Additional Contributions ("AAC") required to be paid to the Teachers and Judicial Retirement Systems and the Additional Uniform Contribution ("AUC") required to be paid to the Employees Retirement System based on estimates provided by the Commonwealth's actuaries incorporating updated assumptions regarding items such as changes in the size of the active membership and future payroll assumptions consistent with the Fiscal Plan.
(2) Deficit for Special Revenue Funds calculated after removing tax revenues, which are shown separately.
(3) Certain component unit projections were developed by consulting with management including: ASEM, ASES, ADEA, Cardiovascular Center, PBA, PRITA, Ports Authority and Tourism Company.
(4) Represents the net income estimates of entities without bonded debt that have historically resulted in a deficit. Note that numbers are shown excluding capital expenditures, which are shown elsewhere. Forward estimated based on review of historical results.
(5) Includes Unemployment Insurance and 9-1-1 Services Governing Board. Excludes Drivers Insurance and Disability Insurance, which are restricted funds.
(6) Catch-up payments are AUC or AAC payments due in 2014, 2015 and/or 2016 that were not paid by the General Fund but are assumed to be paid in 2017.

Summary Page – Financing Gap

The following table presents a detailed summary of the Base Financing Gap after debt service and the financing gap after the measures identified in the Fiscal Plan

- Note that no U.S. government action related to equitable healthcare treatment is assumed below
- The incremental income from economic development below includes the potential benefits of a change in the Commonwealth's real economic trajectory in the Base Projections from negative 1.7% to an average of 0.1% growth, driven in part by $10 billion in new spending to promote stability and growth

												Total	
		2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	5 Yr	10 Yr
79	**Financing Gap Pre-Debt Service, Pre-Measures**	**1,013**	**($114)**	**($1,941)**	**($2,251)**	**($2,540)**	**($2,777)**	**($3,120)**	**($3,530)**	**($4,116)**	**($4,374)**	**($5,832)**	**($23,748)**
	Debt Service Net of Existing Reserves[(1)]												
80	Consolidated Interest	(2,373)	(2,319)	(2,239)	(2,169)	(2,118)	(2,062)	(2,025)	(1,974)	(1,972)	(1,910)	(11,217)	(21,160)
81	Consolidated Principal	(1,094)	(957)	(1,628)	(1,299)	(1,315)	(1,130)	(1,109)	(1,575)	(1,078)	(1,394)	(6,294)	(12,579)
82	Missed Principal and Interest Payments	(1,375)	–	–	–	–	–	–	–	–	–	(1,375)	(1,375)
83	TDF Guaranteed Debt Service[(2)]	(155)	(37)	(6)	(25)	(5)	(5)	(5)	(5)	(5)	(5)	(227)	(251)
84	Use of Existing Debt Service Reserves	379	19	–	–	–	–	–	–	–	–	398	398
85	**Total Debt Service Net of Existing Reserves**	**(4,618)**	**(3,294)**	**(3,872)**	**(3,493)**	**(3,438)**	**(3,197)**	**(3,138)**	**(3,554)**	**(3,055)**	**(3,308)**	**(18,715)**	**(34,967)**
86	**Total Estimated Financing Gap before Measures**	**(3,605)**	**(3,408)**	**(5,813)**	**(5,744)**	**(5,978)**	**(5,974)**	**(6,258)**	**(7,084)**	**(7,171)**	**(7,682)**	**(24,547)**	**(58,716)**
	Improve Budgetary Controls and Fiscal and Economic Decision-Making												
87	Adopt Institute of Statistics / Planning Board Five-Year Plan	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(15)	(30)
88	Install New Accounting and Financial Systems	(30)	–	–	–	–	–	–	–	–	–	(30)	(30)
89	**Total Meas. Aimed at Improve Budg. Controls and Decision-Making**	**(33)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(45)**	**(60)**
	Rationalize Expenditures and Tax Policy to Promote Efficiency												
	Expense Measures												
	Reduce Operating Costs												
90	Achieve Operational Efficiencies	–	28	36	41	42	43	44	45	45	46	148	371
91	Establish Centralized Procurement System	–	60	80	120	120	122	124	127	129	131	380	1,013
92	Employee Attrition (incl. Department of Education)	–	131	155	225	229	233	237	242	246	251	740	1,949
93	Extend Law 66 / Implement Long-Term Budgetary Reform	–	178	257	336	416	400	384	368	353	338	1,187	3,030
94	*Reduce Operating Costs*	–	*397*	*528*	*723*	*807*	*798*	*790*	*781*	*773*	*766*	*2,455*	*6,364*
	Right-Size Department of Education												
95	Execute School Consolidation Plan	–	28	57	85	113	115	117	119	121	123	283	878
96	Overhaul School-Based Management and Operations	–	14	14	14	14	14	15	15	15	15	56	130
97	*Right-Size Department of Education*	–	*42*	*71*	*99*	*127*	*129*	*131*	*134*	*136*	*139*	*339*	*1,008*
	Control Healthcare Costs												
98	Implement Functional P3s at State Hospitals	(2)	12	24	24	24	24	25	25	26	26	82	209
99	Integrate Government Hospitals into Single Organization	(2)	10	19	19	19	19	20	20	20	21	65	165
100	Implement STAR Ratings System and Scale Payments	–	8	15	15	15	15	16	16	16	16	53	132
101	Standardize Health Protocols and Impose Uniform Fee Schedules	–	30	30	30	30	31	31	32	32	33	120	278
102	Reduce Number of 330s as IPAs Under Mi Salud	–	5	5	5	5	5	5	5	5	5	20	46
103	*Control Healthcare Costs*	*(4)*	*65*	*93*	*93*	*93*	*95*	*96*	*98*	*100*	*102*	*340*	*830*
	Cut Governmental Subsidies												
104	Reduce Subsidies to Municipalities	–	–	50	100	200	300	300	300	300	300	350	1,850
105	Modify Special Laws Benefits	–	47	46	45	44	43	42	41	40	39	182	387
106	*Cut Governmental Subsidies*	–	*47*	*96*	*145*	*244*	*343*	*342*	*341*	*340*	*339*	*532*	*2,237*
	Revenues Measures												
106	*Implement and Enforce Tax Policy*												
107	Leverage Tech and Training to Incr. Capture Rates and Improve Tax Admin	10	41	56	65	67	67	67	67	67	67	239	574
108	Restrict Use of Tax Amnesties and Closings	–	25	25	25	25	25	25	25	25	25	100	225
109	Implement and Enforce Tax on Video Lottery Games	–	55	70	81	77	75	72	69	66	64	283	629
110	Address Upcoming Act 154 Revenue Cliff	–	481	962	962	962	962	962	962	962	962	3,367	8,177
111	*Implement and Enforce Tax Policy*	*10*	*602*	*1,113*	*1,133*	*1,131*	*1,129*	*1,125*	*1,123*	*1,120*	*1,118*	*3,989*	*9,605*
111	**Total Measures Aimed at Rationalizing Expenditures and Tax Policy**	**6**	**1,153**	**1,901**	**2,192**	**2,403**	**2,494**	**2,485**	**2,477**	**2,470**	**2,464**	**7,655**	**20,044**
	Enact Stuctural Economic Measures and Invest in Growth												
112	Establish a Local EITC Program	–	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(600)	(1,350)
113	Pay Local Businesses for Past Services and Pay Tax Refunds	(565)	(272)	(272)	(272)	(272)	–	–	–	–	–	(1,653)	(1,653)
114	Build Deposits to Provide Confidence	(214)	(214)	(214)	(214)	(214)	–	–	–	–	–	(1,069)	(1,069)
115	Invest in Incremental Maintenance Capex over Run-Rate	(141)	(528)	(397)	(273)	(103)	(104)	(106)	(108)	(110)	(112)	(1,442)	(1,983)
116	Invest in Economic Growth Projects	(54)	(400)	(466)	(476)	(353)	(316)	(187)	(113)	(103)	(103)	(1,749)	(2,572)
117	**Total Measures Aimed at Enacting Structural Reform and Growth**	**(974)**	**(1,564)**	**(1,499)**	**(1,385)**	**(1,091)**	**(570)**	**(443)**	**(371)**	**(363)**	**(366)**	**(6,514)**	**(8,627)**
	Protect Vulnerable Stakeholders												
118	Implement Pension System Reform	(166)	(166)	(116)	(116)	(116)	(116)	(116)	(116)	(116)	(116)	(681)	(1,263)
119	**Total Measures Aimed at Protecting Vulnerable Stakeholders**	**(166)**	**(166)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(116)**	**(681)**	**(1,263)**
120	**Total Measures Impact**	**($1,167)**	**($581)**	**$283**	**$687**	**$1,193**	**$1,804**	**$1,922**	**$1,987**	**$1,987**	**$1,979**	**$415**	**$10,094**
121	**Residual Est. Financing Gap after Measures ex. Growth**	**($4,772)**	**($3,988)**	**($5,530)**	**($5,056)**	**($4,785)**	**($4,169)**	**($4,335)**	**($5,097)**	**($5,184)**	**($5,703)**	**($24,132)**	**($48,621)**
122	Est. Incremental Income from Econ. Dev. and Structural Reforms	–	202	340	501	718	939	1,185	1,427	1,612	1,782	1,761	8,707
123	**Residual Est. Financing Gap after Measures incl. Growth**	**($4,772)**	**($3,786)**	**($5,190)**	**($4,556)**	**($4,068)**	**($3,231)**	**($3,150)**	**($3,670)**	**($3,572)**	**($3,921)**	**($22,371)**	**($39,914)**

(1) The debt service payment schedule is based in part on publicly available information from the GDB website and Bloomberg as well as information provided by Hacienda and GDB. All parties should consult the relevant governing debt documents to determine their own views as to the debt service obligations for the debt shown below. Note that, as in the Krueger Report, the following debt service payment schedule only summarizes bonded debt service for the entities included in the Fiscal Plan (with the exception of the 2013B GDB notes and GSA lines, both of which are private lending arrangements). Other debt service for private bank lines may be embedded in the projections for certain component units and public corporations. Such amounts are not material.

(2) Includes debt service of certain TDF guaranteed bonds and loans.